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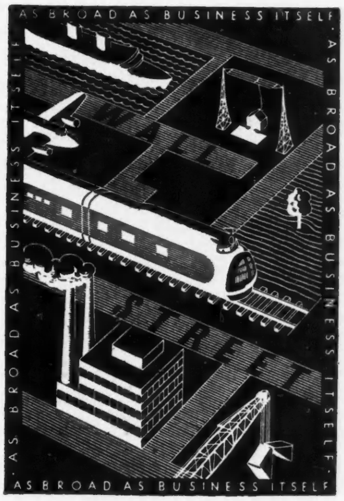
Gendreau

The Battle of the Oceans is not really a battle but a war in itself—the Secret War. Present public optimism assumes Hitler will be beaten in one to two years but unless Russian might proves to be the decisive factor, a United Nations victory must await a thwarting of the German submarine campaign. Since it is still highly effective and the rate of Allied shipping losses is being concealed, the duration of the war remains sheer guess-work. Yet the duration of the war is the biggest question mark in every investment and business calculation, and in every conjecture about the shape of things to come in politics, economics and finance.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

VICIOUS SPIRAL . . . President Roosevelt faces increasing danger of losing the home-front war against inflation. The present price controls are only partially effective, for the cost of living indexes are rising currently at a rate of about 6 per cent a year. That is bad enough—but much worse is the rising threat that ceiling prices will break down completely and that the pace of rise in the cost of living may be radically quickened.

The top leadership of the C. I. O. unions is on the point of sabotaging the Administration's wage stabilization formula and demanding a series of sweeping wage increases. The rail unions are already out for a big rise. "Wrong John" Lewis serves notice that the coal miners must get more when present contracts expire in the spring. And when there is grabbing to be done, the A. F. L. unions will miss no bets. All of this is more ammunition—though none is needed—for the Congressional farm bloc.

In short, the inflation spiral now running appears headed for the really vicious stage—unless the Administration acts boldly and quickly. It is to be doubted that appeals urging "sweet reason" upon the unioneers and the farm politicians can be effective. It is out of the question that adequate fiscal controls—higher taxes and forced savings—can be had in time, if at all. That leaves only one practical answer:—the quickest possible application of rationing to all necessities of life, regardless of their present supply-demand status. But the Administration is not even prepared for this, and meanwhile the problem will become more urgent with every passing month.

SIZE OF THE FORCES . . . In and out of Congress, increasing numbers of people are raising a question as to what is the optimum size of our armed forces—taking into account prospective ocean shipping, the needs of our allies for food and weapons, and the maximum labor supply to be available for our factories and farms.

In this connection it is now officially revealed that present plans call for a total of 10,400,000 in all branches of the armed forces by the end of this year. That is indeed a huge figure. Is it too high?

It should be obvious that this question can not possibly be answered by any civilian or by Congress. It can only be decided by our service commanders. On the other hand it is both proper and useful to pose the question to these commanders and ask them to recheck their findings most carefully and objectively. Victory will be delayed, rather than speeded, if we should mobilize considerably larger forces than could be effectively utilized and thereby restrict deliveries of arms to allies already engaged on the battle fronts.

We all agree on the objective of earliest possible victory. As regards the strategy and tactics, adequate flexibility of mind is called for. We have not frozen the design or scheduled volume of any types of weapons. We alter these as needs change and experience advises. Since it *could* be a mistake—delaying victory—to freeze the size of the armed forces at the sacred figure of 10,400,000, all we ask our commanders is that they double-check the pros and cons and make certain they are proceeding according to a realistic plan as free as possible from the stubborn preconceptions to which all of us non-infallible mortals are more or less subject.

THE BUREAUCRATIC MIND . . . Give a bureaucrat an inch and he will nearly always take a mile—unless stepped on. As a case in point, the Office of Price Administration is reported to be busily devising plans for "measuring and possibly controlling industry profits." The idea would be to lower official price ceilings if "grossly excessive" profits are being made.

In the first place, the OPA was set up to control prices, not profits. In the second place, it is fantastic to suppose that there can be "grossly excessive" profits in any *civilian* industries under present conditions of high taxes, regimented prices and increased operating costs. In the third place, both profits and prices in *war* industries are being adequately controlled by the combination of contract renegotiation and excess profits taxes. If there is any need for still another chain around the neck of that profit dog, it is not visible to the naked eye.

There ought to be some way by which Congress can make administrative agencies stick to the job they were created to do, without over-lapping the functions of other existing agencies. The OPA has insistently claimed that it has lacked enough money and employees to do its work properly. That is probably true, but it greatly weakens its own argument when it wastes both appropriations and time on matters that are not properly its business.

DIVIDENDS . . . The past year brought a reduction in total dividends paid on stocks listed on the New York Stock Exchange—but no such debacle as the more gloomy prophets had anticipated. The complete reckoning for the year shows that the decline from 1941 payments amounted to 12.1 per cent.

Out of 834 listed equities at the year-end, 684 paid dividends during the year; 232 paid the same amount as in 1941; 143 paid more than in 1941; and 273 paid less. By groups, the only increases were in amusements, where the dividend gain amounted to 19.4 per cent; railroads, with an increase of 10.2 per cent; shipbuilding and operating, with a nominal increase; foreign companies, with a gain of less than 1 per cent; and U. S. companies operating abroad, with an increase of 22.7 per cent.

The biggest decline was in the large automobile group, amounting to 37.4 per cent. With this group eliminated, the total shrinkage was about 9.8 per cent. Due to the conversion period, earnings and dividends of the automotive group were not necessarily indicative of 1943 results.

If corporate taxes are held pretty close to present levels, 1943 dividends in the aggregate should hold up better than was the case last year. If we can judge by fourth quarter results, present composite earning power of representative large industrial companies approximates 1936-1937 levels and is only some 15 per cent under the very high levels of 1929 and 1941.

PRODUCTION FOR WAR . . . Last year, according to estimates made by the Department of Commerce, 55 per cent of our total industrial output was designed for war. In the case of durable manufactures, the proportion was 73 per cent; while 29 per cent of non-durable manufactures were earmarked for war.

By the year-end a much larger percentage of both types of goods, as well as some 80 per cent of mineral production, was being taken for war purposes, including lend-lease. For example, the Federal Reserve Board estimates that in the fourth quarter 75 per cent of all industrial output was so destined.

In most types of manufactures, output for civilians is already nearly as low as it is feasible to push it. But that does not mean that the civilian living standard will not be further reduced. For one thing, that standard is now being partially maintained out of previously accumulated inventories and these are steadily running off. For another thing, the civilian living standard does not by any means relate wholly to manufactures. For instance, food is not really industrial production, although processed foods are so listed for some statistical purposes. By all the signs, we are going to be shorter of food than we are now.

On the whole, present civilian clothing demands could not be met out of current production. When the still sizable inventories in retail and wholesale hands decline, a very considerable shortage will develop—probably enough to make rationing necessary. But you can't fight a modern war without stepping on civilian toes. At that, the pinch is going to be moderate as compared with the lot of civilians in England and Russia, Germany and Japan.

As I See It! BY CHARLES BENEDICT

COMPROMISE AND NECESSITY

In my last editorial I suggested that the political conflict raging in Africa called for clarification by Joseph Stalin as to the "amount and kind of political liberalization his Government contemplates after the war. Also a frank statement regarding his war aims as to territory."

And now Stalin's absence from the United Nation's Conference at Casa Blanca clearly tells us that Stalin is not ready or willing to make such statements — this regardless of the other reasons given.

And it is unfortunate that this should be so as the fear of communism is once again rising to split the ranks of the United Nations.

In fact, the addresses of both Hitler and Goering took advantage of this knowledge by enlarging on the possibilities of a communistic sweep through Europe in the advent of a Nazi collapse.

This can make no impression upon us, since there is no choice between either of these autocracies. Moreover, we are aware of the complexities of the situation and know that some solution must be found for this problem. Undoubtedly, the President and Mr. Churchill have accomplished much towards this end at the Casa Blanca Conference.

As matters stand the salvation of the United Nations calls for complete unity of purpose and the most astute political planning, so that the advantage of the element of time is on our side, for situations have a way of working themselves out when this is so.

As far as Stalin's collaboration with the United Nations is concerned, we have known from the beginning that it centers around the mutual necessity to vanquish Nazi Germany. Beyond that, Stalin is not interested in our aims. His sole objective is to make Russia a dominant world factor, militarily, economically and politically. At the moment he feels particularly sure of himself. And since he has contributed more than anyone else to the weakening of Germany — he dreams of getting to Berlin first and prefers to continue to play a lone hand to make sure that he gets what he wants in the final settlement. And his chances would be very good indeed if he defeated Hitler, before the Allies were able to take the offensive on the Continent.

As matters stand today, the wanton destruction of Europe, the decentralization of industry, and the other economic changes instituted by Hitler to secure his new order, have already produced a very different Europe from the one we have known. When the war is over there will rise from the ashes a helpless, impoverished and bloodless Europe obliged to bow to the will of whosoever establishes hegemony over the Continent.

Because of this setup the defeat of Hitler could readily make way for Russian domination and very little could be done from a nationalistic standpoint, for by shifting the people of Europe about from one country to another Hitler (*Please turn to page* 500)

Three Lions

American cheers for Russian victories are mixed with misgiving about the still secret post-war objectives of the Kremlin and its totalitarian ruler.

What's Ahead for the Market?

The movement seems to us to have become considerably more speculative in character of leadership and in volume indications. While we favor retention of positions by long-pull holders, we would defer new purchases until reaction offers more advantageous average price levels.

BY A. T. MILLER

Summary of the Fortnight: New recovery highs were made by the Dow industrial and utility averages, with rails lagging. New highs also were made by the Magazine of Wall Street's *weekly indexes of* 273 *stocks,* 100 *higest price and* 100 *lowest price stocks. In volume and leadership, the movement assumed more speculative characteristics.*

Such old-fashioned people as still appraise the market trend in terms of Dow Theory are a bit suspicious of the failure thus far of the rail average to better its high of last November, whereas over the same period the industrial average has advanced over 8 points. There is no question as to the major bull trend, but there is some question about an intermediate reaction.

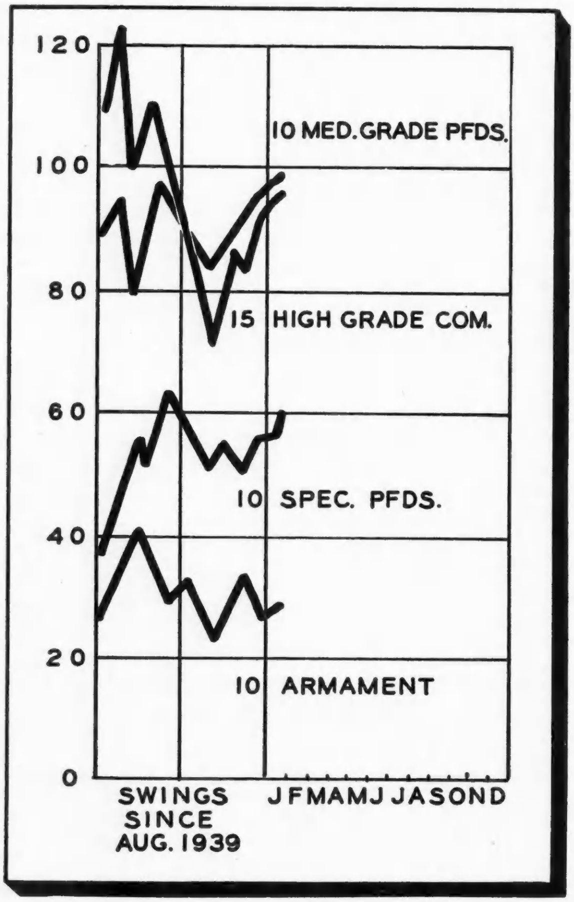
The writer is among the early bulls—bullish since May, 1942—who has believed that such a reaction is a probability at some time within the first quarter of this year. But I don't concede that the action of the rail average *ought* to have anything to do with this, though perhaps it does have a psychological influence on the thinking of traditionalists.

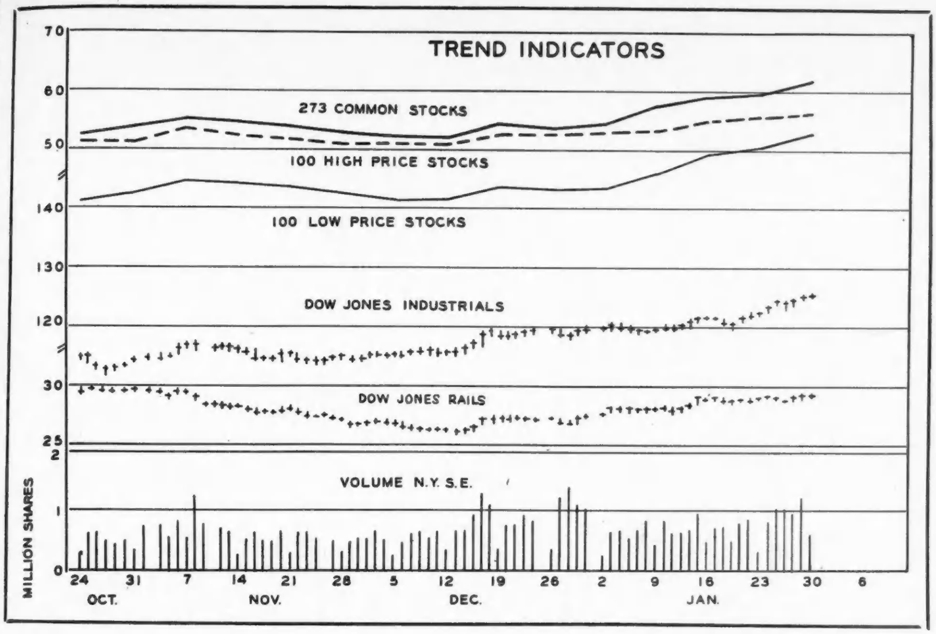
The rails are just one group of stocks. So are the steels or the aircrafts or coppers. In every bull market there are always some laggard groups. In the great rise of 1935-1937, the rail average did not "confirm" until early October of 1936. It had made a high of 56.53 in the summer of 1933—which looks pretty good in comparison with present levels just above 29—which was not bettered for more than three years. Over the same period the industrial average had an advance of about 62 points. Indeed, when the rails finally gave the Dow Theory "confirmation", about 80 per cent of the bull market had been completed!

So far as it has any bearing on the possibility of an interlude of general market reaction, I would be inclined to view belated strength in rails—should it develop—with fingers crossed. This is supposed to be an "investor-dominated" market. It obviously is in the sense that there is no important margin trading position extant. But, obviously, cash buying can also be speculative in character and objective—and I must consider the general character of this market as increasingly speculative when I see demand—cash or margin—converge increasingly on speculative stocks.

Week after week especially during the past two months—a preponderant majority of the most active issues have been low-price, non-dividend paying stocks. Recently the long laggard steels, aircrafts, coppers and rail equipments have been "given a whirl". Logically, strength in speculative "late movers" should not strengthen one's bullishness on intermediate market prospects.

Of course, many stocks of good quality have done well in the recovery period to date, and also in the recent movement. In this column, and elsewhere in the Magazine, numerous of these were recommended —also many low price speculations—many months





ago at much lower prices than now prevail. But on the whole, the investment quality stocks have not done nearly as well as the market average. To date our arithmetic average of 15 stocks of investment quality has recovered 44 per cent of the ground lost in the major decline from the autumn high of 1939 to last year's low, against 52 per cent for the Dow industrial average. The discrepancy would be considerably greater if the Dow industrials were figured on a straight arithmetic basis.

The recent rise in volume to a level above 1,000,000 shares a day is another suggestion of developing excess in the current market.

To keep the record straight, let me emphasize the following points as regards this publication's market attitude:

(1) This is a bull market and average prices in time will probably move much higher than now.

(2) This article is written five days before it reaches the average reader and makes no effort to conduct a short-run trading service.

(3) We have not advised and do not advise investors to take profits. As a practical matter, the great majority of holders will do best to ignore reactions and sit tight until there is some evidence of a major top forming—which is not the case now, in our opinion. To sell in anticipation of repurchasing on an intermediate reaction always involves risk of losing a position and adding to, rather than decreasing, the cost of the original commitment.

(4) On the other hand, this column doubts the wisdom of making new investment purchases now or of expanding speculative holdings. We are not among those whose current bullishness increases the higher prices go. We believe in buying values whereas today we see more and more people buying prices. We don't admire the acumen of "investors" who now are itching to "get into the market"—only after our broad average has advanced 40 per cent, a bull market has been in progress nine months and volume has crossed the 1,000,000 share level.

(5) Despite the fact that buying now is far less "smart" than it would have been when we called the turn in this market many months ago, we take no exception to *current* purchases on the part of those who are willing and able to assume the risk and who can view the threat of intermediate reaction with equanimity. For the consideration of such investors and speculators, we have presented and are continuing to present stock selections in each issue of the MAGAZINE. But I repeat that my personal slant is—not unnaturally—less enthusistic than it was when many of these stocks were available at half present prices.

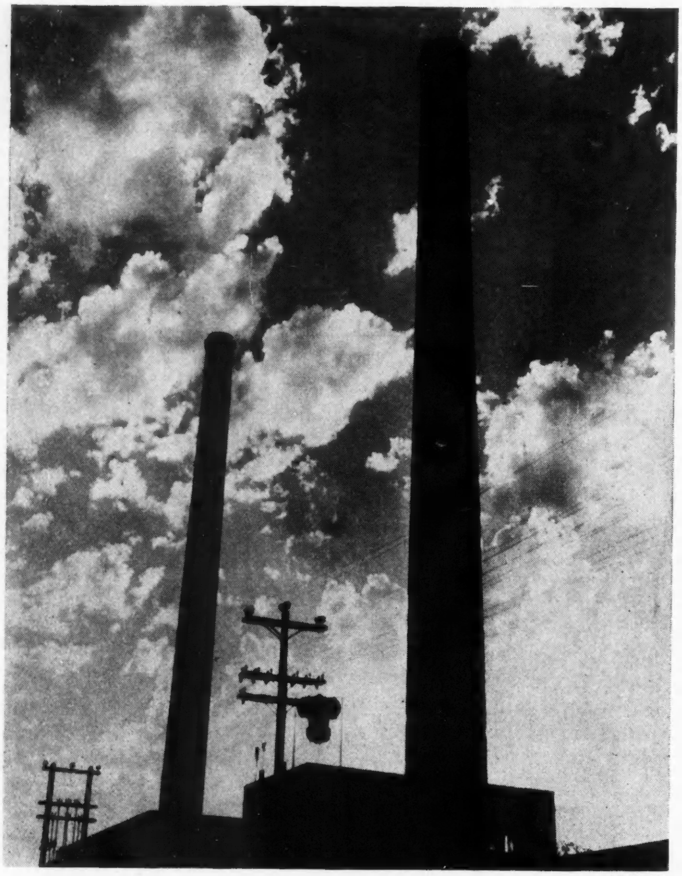
I not only concede but emphasize that timing a worth while reaction in present-day markets is much more difficult than formerly—which is one good reason why liquidation by long-pull holders has not been suggested and why my caution is confined merely to a preference for deferring new or additional commitments.

The tendency of modern small-volume, SEC-regulated markets—with light marginal trading and manipulators out of the picture—is toward longer periods of reaction-free advance than in earlier days; also toward relatively infrequent rallies of any scope in major declines. In the big bull market of 1935-1937 there were only four sizable reactions in a period of about two years, amounting, respectively, to 8.17, 9.50, 18.34 and 9 points in the industrial average, though there were additional and more numerous reactions amounting to 5 or 6 points. Granting this tendency, however, the present movement has now entered its tenth month, without any reaction of as much as 5 points. So far as immunity to reaction is concerned, we think it is now living on borrowed time.

It may be argued that the revised capital gains tax, with a six-months' holding period, encourages buying and discourages selling. That is true—but goodly numbers of early bulls already have profits established over six months and which thus qualify for the 25 per cent tax rate. Stocks bought at any time prior to August 1 last year are now in that position—and heavy tax payments are due to be met just six weeks hence.

Conclusion: We think a worthwhile reaction is in the offing and favor deferring purchases.—Monday February 1.

THE PERMANENT WAR GAINS *Versus* THE COSTS OF THE WAR



Triangle

BY WARD GATES

AT the end of January this country's cumulative expenditure for defense and war approximated $70 billion. If the war lasts another two years, this cumulative total will exceed $250 billion.

That is about three times more than the highest national income we ever produced in the most active peace-time year. It greatly exceeds all the assets of all the business enterprises in the nation.

But money—the medium of exchange—is only the measure of wealth and of value. Of itself, it is neither wealth nor value. Take a $20 bill out of your pocket and look at it. It is a nicely engraved piece of paper. You can't eat it nor wear it. It has scarcely any intrinsic value—yet with it you can buy, say, a hat and a pair of shoes. In other words, the intrinsic value is in the hat and the shoes, not in the $20 bill.

Again, money of itself has no productive power. The balance sheet of a given manufacturing enterprise may state total assets as $10,000,000. However, the productive power is inherent not in the monetary figure but in the plant as a physical entity, in the machinery, in the brains of the management, in the skill and energy of the workers, in the inventory of materials, etc.

There has been a great deal of discussion of the "cost" of this war in monetary terms—much of it completely unrealistic. Many quite sincere people are, in my opinion, unduly worried about it. The purpose of this article is (1) to emphasize that discussion of the war's cost in dollars is highly misleading; and (2) to suggest that the real cost, as measured in tangible values, should be weighed against the great and lasting human and material benefits that will accrue to America as a result of our war effort.

First, let us contrast our situation with that of France or of Poland. It would not occur to you to say that the war cost France $50 billion or that it cost Poland $20 billion. It would not occur to you because you know that to measure what the war cost these two unfortunate nations in terms of any money measurements would be meaningless.

The cost to these nations, and to all others engulfed by the Hun, must be measured in terms of lives lost, human degredation and impoverishment, wrecked factories and utilities, stores bare of goods, mines unfit for production, farms drained of their fertility by lack of fertilizers and inadequate care, ruined transportation facilities, etc.

The strength of any nation—both the backbone and the source of its material wealth—consists of its productive resources:—its mines and factories; its timber lands and fertile farms; its utilities and transport facilities; and, more important than any material thing, the knowledge, skills, energy

and resourcefulness of its people.

When you look at it this way, you begin to see that the war is making us not poorer but richer—richer because more productive; richer because our total resources for production are not being destroyed but enlarged and improved.


Curtiss Wright Corp.

Of course, this is not to say that the war will cost us nothing. Already it has cost the lives of many thousands of young men. It will cost the lives of many more before it is finished. This is a loss in our most productive age group. Should our total casualties be proportionate to those suffered by France and England in the First World War, the human loss would be onerous indeed, for among the millions in the armed forces are the men who would normally become in time our outstanding statesmen, our great scientists, our ablest industrialists.

But I think there is a reasonable basis for hope and belief that, in relation to our total manpower, our casualties are unlikely to be as heavy as were suffered by France, England, Germany and Russia in the last war or as have been suffered by Russia and Germany to date in the present war. And to note for the record that all these nations, and others too, have suffered staggering human losses without more than passing impairment of their productive powers is not in any way to make light of the tragedy.

Other than the lives lost, what will the war cost us in tangible values, as distinct from the "bookkeeping" cost as represented by dollars of national debt?

Conceivably, though it now seems improbable, we might experience a few bombing raids of unimportant total effect. Invasion, and the destruction of real wealth that goes with it, is out of the question. Our homes and public structures and works will remain intact. Our farms will not lose their fertility.


From Three Lions

Henry J. Kaiser, Miracle Builder.

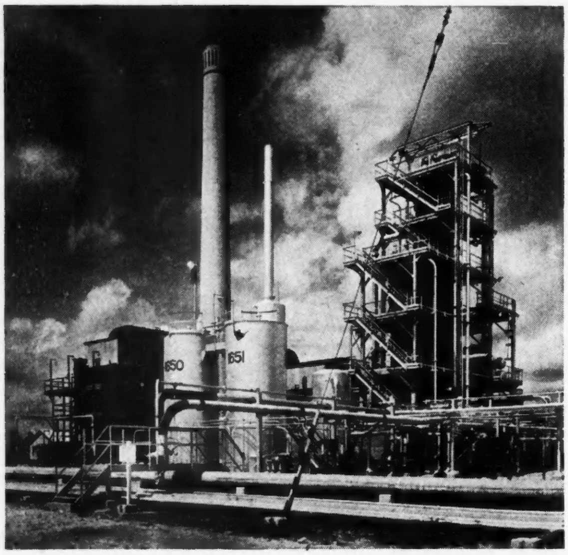
Our forests will not be burned. Our total means of production will not only be intact but much larger than ever before.

Great numbers of our ships are being sunk, with precious cargoes of arms, ammunition, food. Equipment which costs billions in money is being or will be destroyed in battle. Does not this represent a real loss and a big cost? In one sense the answer is yes—but a readily bearable loss in no way comparable to that which would be represented by serious impairment of our basic resources of production. These things represent only a partial loss out of current production. They are readily replaceable. They are what the military men call "expendable."

We are suffering some loss of productive assets in the form of abnormal depreciation of machinery. This might assume rather important scope in nonessential enterprises. Nevertheless our aggregate producing facilities will be much greater after the war than before; and the war-time depreciation and obsolescence of some of them can be promptly made up. Industrial power such as ours is highly procreative. Machines spawn machines.

Suppose that in time the demands of war reduce our living standard considerably. It would still be reasonably comfortable, and still remain the highest standard on this globe. Suppose our supplies of food and clothing become as skimpy as they are in England. That would constitute a temporary sacrifice, not an economic loss. Though unavoidable, this would be analogous to voluntary savings in economic results. What we save by spending less will be available for needed spending when goods are again plentiful after the war.

Last year the Government debt—which we owe to ourselves as a people—increased by about $50 billion. But in the same year the net savings of the people as individuals increased by about $26 billions,



Standard Oil Plant, where raw materials of synthetic rubber are manufactured.

which certainly can be considered a substantial off-set. To the extent financed out of savings, rather than bank credit, Federal debt and investment by the people are Siamese twins. I think it probable that somewhere around half of the total Federal debt increase for the war period will represent savings by the people.

How are we getting this vast war production? We are getting it partly by curtailing normal civilian production, and diverting to war purposes the materials, labor, power and transportation thus released. *But in much larger degree we are getting it out of new producing facilities that did not exist before the war.*

Of course, the great majority of us are paying radically higher taxes and it is improbable that the peak has been seen. These taxes are a means of financing part of the money cost of the war, also a means of apportioning the sacrifice in living standards. Whether the apportionment is as equitable as it should be is debatable, the answer depending largely on the individual's perspective. The point of view of a filling station owner who has lost half his revenue and two-thirds of his net income will not be the same as that of a plant foreman whose income, after taxes, is far larger than before the war. Had there been no changes in taxes, the effect of a war economy would in any event have been to raise the incomes of some, depress those of others.

There is no doubt that the Roosevelt Administration has welcomed the war-created opportunity to get on with a very substantial redistribution of the national income in favor of the lower-income people whose normal spending accounts for probably two-thirds or more of the goods domestically marketed. An increased share for the masses, a reduced share for the rest of us, appears to be permanent. I have no pocket-book reason to favor this—just the opposite. Yet I know and concede that the redistribution theory—if practiced within not immoderate limits—is economically valid and in the interest of high and continuing business activity. I do not think that the scope of the income-shift to date is very onerous and doubt that it will become so in future.

Given wise policies by both the managers of private enterprise and by the Government, it will be entirely feasible to maintain a peace-time national income well above $100 billions a year. Allowing for qualitative improvement of and lower cost of goods after the war, such a national income probably would have a purchasing value at least 50 per cent greater than any pre-war annual income. If that is so, more than 98 per cent of our people would be better off than ever before—including the middle and upper-middle classes and even perhaps some of the rich, even if their percentage share of the whole were not as great as formerly. Five per cent of a big pie may be more than 20 per cent of a small pie.

The permanent material gains evolved out of the war effort will be so numerous that I will comment only briefly on some of the more significant of them. They include:

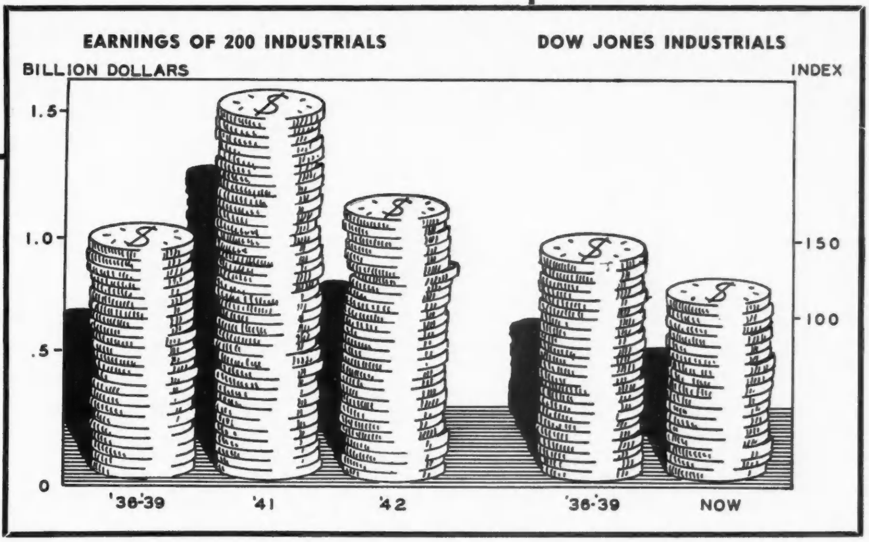
A tripled machine tool capacity, an important part of which will be convertible to civilian production; an increase of probably more than one-fifth in total factory horsepower; a complete new industry in synthetic rubber; revolutionary developments of vast commercial promise in the fields of electronics and chemistry; remarkable advances in metallurgy; expanded supplies of all major industrial raw materials, with the older materials supplemented—and in many instances partially replaced—by plastics and plastic plywood, aluminum, magnesium and a host of synthetics; a great impetus to air transport; a largely increased merchant marine; an expanded system of pipe lines; the great highway linking the U. S. to Alaska; the beginning of a highway link with Central and South America; remarkable forward strides in medicine and surgery.

In a nutshell, some of the (*Please turn to page* 504)

Three Lions

1,600-mile Alcan Highway, that now links the United States with military posts in Alaska.

Appraising The Annual Reports and Balance Sheets



BY J. C. CLIFFORD

THE period now starting—and continuing through March—will bring to you the annual reports and balance sheets of the corporations in which you are a stockholder. These reports and balance sheets provide the most complete information available to shareholders in appraising the influences affecting, for good or ill, the equities into which they have put their money.

War is itself the most abnormal and disruptive thing known to mankind. Necessarily, war conditions mean abnormal and radical change in the character of corporate business, in operating methods and in financial results. For that reason it is all the more essential that stockholders carefully study these annual accountings of the stewardship of their corporate managers and the detailed explanations and interpretations—adequate enough for practical purposes in the great majority of cases—that accompany them.

As this is written, out of 834 companies which have equities listed on the New York Stock Exchange, less than 100 have released their annual statements; and a great many of these represent abbreviated press releases, rather than the full pamphlet reports, with balance sheets to come later. However, just as the Gallop Poll can arrive at a closely accurate measure of public opinion on any question by a small sample survey properly conducted, so the experienced financial observer can foot up the limited number of corporate reports now available and arrive at some over-all conclusions both quite accurate and very important to investors.

Even though your greatest interest must be in the earnings of the individual companies of which you are a shareholder, nevertheless the general trend of corporate earnings is important—because of its great influence on financial sentiment, which so dynamically affects stock prices—and is worth brief comment in this article.

By far the most spectacular earnings performance of 1942 was that of the railroads. Although final figures are not yet in, total net income closely approximated $1,000,000,000 and was almost exactly double that of 1941. To date, however, the rail shareholders' benefit from this major improvement is quite modest, for while total net income doubled, dividend payments increased only 10 per cent. There will be a future benefit to stockholders,

Showing Gains in 1942 Earnings

	1942	1941
Walker (H.)-Gooderham & Worts	$3.40	$2.03(a)
Purity Bakeries	2.22	1.85(b)
Outboard Marine & Mfg.	1.74(c)	.08
United Merch. & Mfrs.	4.04	3.53(d)
Hooker Electrochemical	4.13	3.35(e)
West Virginia Coal & Coke	1.26	1.22
Continental Motors	1.82	1.07(f)
Curtis Manufacturing	2.50	.99(e)
American Agricultural Chemical	.58	.53(d)
National Oats	1.52	1.51
Duquesne Light	4.58	3.97(e)
Eastern Air Lines	3.57	1.54(g)
Hart, Shaffner & Marx	8.98	5.86(e)
RAILROADS		
Chicago, Burlington & Quincy	$16.76	$6.10
Northern Pacific	6.57	3.13
New York Central	7.61	4.07
Bangor & Aroostook	4.60	3.26
Delaware, Lack. & Western	3.05	2.17
Great Northern	11.62	6.71
Southern Railway	23.42	12.61
Delaware & Hudson	12.87	8.47
Texas Pacific	20.17	6.09

(a)—Quarter to Nov. 30. (b)—53 weeks Jan. 2. (c) Quarter to Dec. 31. (d)—6 mos. Dec. 31. (e)—Yr. to Nov. 30. (f)—Yr. to Oct. 31. (g)—9 mos. to Sept. 30. (h)—9 mos. to Dec. 31.

however, as a large portion of rail profits—which also will be excellent this year—are used to retire funded debt, which will strengthen the position of the equities.

I estimate that net income of the electric utilities in the aggregate declined approximately 10 per cent and net available for common shareholders by around 15 per cent. There is nothing to cheer about here—except that the shrinkage was not nearly as bad as many pessimists had feared when 1942 began. Dividends paid by the 47 utilities with common stocks listed on the Stock Exchange declined only 5.3 per cent from 1941 totals. This modest reduction—considerably better than the average of listed stocks—was contrary to the popular consensus of earlier predictions and that it was so small was made possible by generally good cash positions and resultant ability to pay out a larger-than-normal portion of earnings.

We turn now to the corporate division which is the real backbone of the stock market and of much greater interest to millions of investors than the rails and utilities—the industrial and trade group. For purpose of comparison over a long period of years, this publication has from time to time published actual or estimated composite earnings of a representative cross-section of "Big Industry," made up of 200 large industrial companies. They are not all giants by any means, but they do include the cream of listed industrials—cream in this sense representing size rather than investment quality.

From the industrial reports in hand now, I estimate—and it will not be wrong in more than minor degree—that the 200 companies had total earnings of $325,000,000 in the fourth quarter and of $1,112,000,000 for 1942 as a whole. Thus, the year's earnings were about 26 per cent less than in the high year 1941—high because this group in 1941 almost exactly equalled the earnings of 1929.

But it is significant to note that the lowest point of 1942 industrial earning power was seen in the second quarter, the figure for our 200 industrials having been $226,000,000; and that both the third and fourth quarters showed large improvement. The quarterly trend was as follows: first quarter, $275 million; second, $226 million; third, $286 million; fourth, $325 million.

There are several reasons for the sharp fourth quarter betterment. First, transition and conversion to war work by many companies held down earnings during the first half of the year. As conversion was progressively completed and volume of war goods deliveries expanded, profits improved in both the third and fourth quarters. Second, many companies over-estimated their tax liability in the first half of the year and especially in the second quarter, the subsequent adjustments tending to boost third and fourth quarter profits. Also various companies in the annual accounting included post war credit on excess profits tax paid as part of earnings—which it certainly is—whereas they had not done so in previous quarterly statements. Third, there is always a seasonal tendency toward largest earnings in the fourth quarter—though it should be noted that this, for obvious reasons, is less pronounced than normal in an all-out war economy when a very large segment of industry is working at forced draft with no seasonal variation.

Rising War Goods Volume

While it is not possible to segregate accurately the above three influences that made for better fourth quarter earnings, it seems apparent that completed conversion to war work and mounting volume of war production represented the most important factor. To that extent—as long as the present corporate tax status is maintained—the improvement registered in the fourth quarter should be maintained. If so, the 1943 earnings of our "200-composite" should be somewhere around $1,200,000,000—20 per cent less than 1941 or 1929 but exceeded only in five years out of the past twenty years (1928, 1929, 1937, 1940, 1941) and modestly above the earnings of the good year 1936 when the Dow-Jones industrial average attained a high some 60 points above its present level and when its median level for the year was some 40 points higher than the present level.

So much for the background on over-all earning power of your corporations.

As usual, United States Steel is the first of the major companies to issue its report. Net profit for the year was $5.39, as compared with $10.45 in 1941, certainly a big shrinkage. On the other hand, fourth quarter earnings—aided by a Federal income and excess profits tax credit amounting to about 71 cents a share—came to $2.23 a share.

Whereas total tax deductions for the year amounted to $227,891,000, the tax accrual for the fourth quarter alone amounted only to $12,148,000. The company obtained large tax credits by retiring $41.4 millions of long term debt during the year,

reducing debt total to about $152 millions, and also by making a special payment of $16.5 million to the company's pension fund. Contingency reserve in the fourth quarter amounted to $7 million and to $25 million for the year. Real earnings, the contingency reserve not being deductible, exceeded $8 per share. The company's balance sheet is not yet in hand.

The report of Bendix Aviation for the fiscal year ended Sept. 30 is particularly interesting because here is an extreme case of skyrocketing war volume. At the huge figure of $459,169,000, sales were 20 times the pre-war level and 3 times larger than in the previous fiscal year, but profits came to $5.90 a share on the common stock, against $6.30 in the previous year. You can blame the modest reduction in earnings on higher taxes, if you choose—but it might be noted that profits would have been far bigger than in 1941 except for the fact that voluntary contract renegotiation on Government work during the year came to the somewhat striking sum of $123,000,000! Even so, Bendix shareholders have no cause for complaint. As against $5.90 per share last year and $6.30 the year before, Bendix earnings before the war averaged well under $2 per share.

But the other side of it is that this company's huge physical expansion in war work involves a heavy drain on cash and is not without an element of financial hazard for the future. Bearing that hazard in mind, the management emphasizes the necessity of retaining substantial amounts of earnings and of creating reserves. In line with that policy the dividend rate was recently reduced from $1 quarterly to 75 cents. As it is, the total reserve for post-war contingencies as of Sept. 30 amounted only to $7,380,000 and aggregate reserves of all types came only to $14,171,000—quite moderate figures considering the size of this enterprise.

Showing Declines in 1942 Earnings

	1942	1941
Mathieson Alkali	$1.26	$1.90
Allied Mills	1.87	2.40
Consolidated Gas of Baltimore	4.20	4.64
Sutherland Paper	2.57	2.85
United Gas Improvement	.48	.72
Bethlehem Steel	6.31	9.35
Inland Steel	6.57	9.08
Lone Star Cement	3.62	4.33
Republic Steel	2.67	3.87
Savage Arms	2.45	5.11
Tide Water Assoc. Oil	1.28	2.09
Freeport Sulphur	3.05	3.95
Hercules Powder	3.81	4.23
U. S. Pipe & Foundry	2.38	3.76
Wheeling Steel	4.61	11.71
Arlington Mills	9.45	14.07(e)
Caterpillar Tractor	3.72	4.13
Remington Rand	1.55	2.25(h)
U. S. Steel	5.39	10.45
Paraffine Companies	1.64	2.22(d)
Liggett & Myers	4.55	5.22
Reynolds Tobacco	1.98	2.32
Atlantic Refining	2.33	5.16
Consolidated Paper	1.42	1.93

(e)—Yr. to Nov. 30. (d)—6 mos. Dec. 31. (h) 9 mos. Dec. 31.

If you examine the Bendix balance sheet you will note a large increase in the cash item and in other current assets—but a proportionately large increase in current liabilities also. In other words, the money is rolling in to Bendix in a big way but also rolling out; and, like many individuals, the company can't keep more than a step or two ahead of its creditors—the biggest of these being the Government.

Though cash and marketable securities footed up to $74.7 millions at the year-end, an increase of $62.8 millions in a year, current liabilities representing taxes or other claims by the Government alone came to over $121 million! While net working capital of $30.9 millions was a gain of $17.6 million for the year, the ratio of total current assets to current liabilities was only 1.14 as compared with about 1.28 a year before. So far as financial status is concerned, this is not progress.

The Drain on Cash

If it could be done, it might be a good idea to put corporations on a pay-as-we-go Federal tax basis. For companies with swollen volumes, like Bendix, there is no threat—as long as the money keeps coming in. But when and if for any reason the cash inflow takes a sharp drop—and it will some day—that back tax debt could be plenty of a headache.

Look now at Caterpillar Tractor, also a war-active company but one whose volume has not been swollen anywhere near as much relatively as has that of Bendix; and whose operations have not changed so radically in character. Due entirely to increased Federal taxes, net for the year ended Dec. 31 was $3.72 a share on sales of $142 million, as compared with net of $4.13 a share on sales of about $102 million in 1941. Operating profit was $22.4 millions, as compared with $16.2 million the preceding year, thus amounting to not quite 16 per cent of sales or closely equalling the ratio of the preceding year. The balance sheet showed cash at $4,525,000 or about 16 per cent down from the year before; and inventories, at $37.2 million, about 21 per cent larger than a year before. Current assets of $58.7 million compared with current liabilities of $27.3 million—a comfortable ratio of better than 2.1, but at the end of the previous year this ratio had been 2.7. So even in the case of Caterpillar there had been some deterioration of liquid financial status, a familiar phenomenon of an inflationary, high-tax war period, though not important in this instance.

The annual reports of Reynolds Tobacco and Liggett & Myers illustrate the difficulties confronting consumer goods enterprises whose sales can not possibly expand enough to maintain normal earnings, under the impact of war taxes and higher costs of doing business. Reynolds sales were $292 million in 1940, $323 million in 1941 and $369 million last year; but profits were $25.5 million in 1940, $23.2 million in 1941 and $19.8 million in 1942. Each year more sales, less earning power. Net per share was $1.98 last year, against $2.32 the year before. The sales increase was enough to more than balance higher costs, including (*Please turn to page* 499)

Ewing Galloway

Investment Information, Please

The Question:

"How can I increase my investment income to meet higher living costs and taxes?"

THIS problem is offered for solution by an investor in Florida who states that his Civilian Defense activities, added to his regular employment, have caused him to pay less attention to his investments. Now he finds that with the growing living expenses, Victory tax and higher income tax he will need increasing assistance from his securities if his standard of living is to be maintained. He is 49 years old, married with a wife and one son, 21 years old. His earned income is $5,000 annually, 10% of which goes into Defense Bonds. His home is owned free and clear, valued at about $10,000. He carries $15,000 of straight life insurance; holds $2,500 in Series G Defense Bonds which he will not disturb; retains a reserve of $1,700 in the savings bank for any special emergency. His security portfolio is currently valued at $27,180 and in 1942 yielded him $1,101.25. It is made up of the following stocks and bonds:

BONDS

2M	Southern Railway gen. 4s, 1956
2M	Allegheny 5s mod. 1944
2M	Niagara Falls Power 3½s, 1966

PREFERRED STOCKS

10 shares	American Can $7 Pfd.
10 shares	Corn Products Refining $7 Pfd.
10 shares	MacAndrews & Forbes $6 Pfd.

COMMON STOCKS

25 shares	General Motors
50 shares	General Electric
25 shares	Sears Roebuck
20 shares	Dow Chemical
50 shares	National Dairy Products
50 shares	Standard Oil of New Jersey
50 shares	Hercules Powder
50 shares	U. S. Gypsum

No doubt many investors are faced with income problems similar to those presented in this case. Naturally, opinions will differ as to what is the wisest course, and as to what is the most feasible compromise between risk and safety. The differing suggestions made here by our two guest experts merit careful study. The first program is reasonably conservative, yet offers a large increase in income. The second makes a much greater sacrifice of safety for doubled income and for capital appreciation objectives.

Proposal No. 1—By an Investment Counsellor

THERE is more truth than poetry in that old saying that "he alone is rich, whose income is more than he uses." Income is money coming to a person or corporation within a specified time or regularly. Due emphasis should be given to the word "regularly." The income of a nation is exceedingly difficult to estimate, from its inherent fluctuations, whereas that of an individual can be determined with considerable accuracy.

The new Federal Income Tax bill will require drastic readjustments by many individuals in order to pay their indebtedness to the Government. To many, this will be a new compulsory budget item. Thousands of incomes have remained fixed in the face of increased living costs. While the Bureau of Labor reported a rise of only 7 per cent in wholesale prices during the past twelve months, every shopper knows that retailers appear to be charging more than ceiling prices.

The first requisite, therefore, appears to be that one assure himself, as far as possible, that his income continues to be received regularly. If he has a security portfolio, he should review every stock and bond held and ascertain whether the interest or dividend received formerly is in jeopardy. He can increase his income by eliminating any non-dividend payer and reinvesting his funds in securities which are income bearing. It is not difficult to find them even in many low priced issues. True, they are speculations but a non-income bearing security is also obviously speculative. Any legitimate method by which a person can secure an increment in his income appears justifiable and will measurably alleviate his increased tax obligations.

Revised Portfolio for Higher Yield

No. of Shs. or Par Value	SECURITY	Current Mkt. Value	Total Value	Income
$3,000	N. Y. Cent. Lake Sh. 3½s, 1998	53	$1,590.00	$105.00
3,000	Chic., Burl. & Quin. 1st 5s, 1971	74	2,220.00	150.00
2,000	N.Y. & Qns. El. Lt. & Pr. 1st Cs 3½s, 1965	100	2,000.00	70.00
50 shares	Jones & Laughlin $5 Pfd. B	66	3,300.00	250.00
50 "	American Sugar $7 Pfd.	86	4,300.00	350.00
100 "	Columbia Pictures $2.75 Pfd.	31	3,100.00	275.00
50 "	Crown Cork & Seal $2.25 Pfd.	37	1,850.00	112.50
50 "	Kennecott Copper	29	1,450.00	150.00
50 "	International Nickel	30	1,500.00	100.00
50 "	Continental Can	27	1,350.00	62.50
60 "	Greyhound Corp.	14	840.00	75.00
100 "	Westinghouse Air Brake	15½	1,550.00	125.00
100 "	General Telephone	16	1,600.00	600.00
			$26,650.00	$1,985.00

This is a portfolio of a business man whose yearly earnings are $5,000 with poor prospects of any substantial increase. The preferred stocks are of excellent investment calibre but the large premium at which they are selling places them in a vulnerable position should money rates increase. The common stocks are representative companies. Two of the bond issues are rated "B" and one "A". The indicated income yield is 4.05 per cent.

The alternative portfolio which I suggest shows what the same capital could do if invested as indi-

cated. The income yield is 7.4 per cent. Annual income is increased from $1,101.25 to $1,985, or $884 (80 per cent). To obtain this additional income, let us see how much we have sacrificed in the quality of securities. The bonds carry a higher investment rating, namely, B-1, B-1 plus and A-1 plus in the order shown in table. The preferred issues are not high grade but Jones & Laughlin Steel Co. earned $30.18 on its combined preferred issues in 1941. In the first nine months of 1942, it showed $13.85 on the preferred stocks. Latest available balance sheet showed net current assets of $67,000,000 and cash, U. S. Government bond and other marketable securities totaled over $37,000,000. Net assets per share of preferred stocks were $327. 1942-43 price range: high 79⅞; low 61. American Sugar preferred has paid its $7 dividend regularly for fifty years. Even in poor years such as 1938, it maintained its dividend due to the strong working capital position. Columbia Pictures preferred, when pleasure driving was restricted, held better marketwise than most moving picture stocks. For the year ended June 30, 1942, it showed $21.49 on its $2.75 preferred or dividend requirements earned nearly eight times. Company on June 30, 1942 showed a strong financial condition, the ratio of current assets to current liabilities being 5.6 to 1. The price range in 1942-43 was: high 35; low 24. Crown Cork & Seal $2.25 preferred has paid dividends regularly since issuance in 1936. In 1941, it earned $13.02 on the preferred and average earnings for the past four years were $9.58 per share or over four times preferred dividend requirements. Latest available balance sheet showed net current assets of $16,700,000 and the ratio of current assets to current liabilities was 3.5 to 1. Most of the equities are representative stocks and are included in the portfolios of many investment trusts, some at much higher prices than now prevail. Readers should not construe the foregoing as recommendations to buy or sell any specific security. For example, the Alleghany 5s of 1944 are due in 1944. They may be paid at par at maturity or they might be extended. The investor in this case is interested in income with a reasonable degree of safety. However, there is also a possibility of enhancement in market values in this portfolio. Some criticism may be made as to the amount of funds allocated to preferred stocks—about 47 per cent, whereas only 22 per cent is in bonds and 31 per cent (*Please turn to page* 497)

Proposal No. 2—By a Broker

The question posed by this man in Florida is one which is puzzling investors throughout the country. Its solution must be entirely realistic. Since December, 1941, the cost of food is up 17% and of clothing 10.6% according to figures just released. Prices of conveniences and luxuries have advanced several times these percentages. Even if a "pay-as-you-go" basis of personal income taxation is adopted this year, higher taxes are going to weigh heavily on all of us. Plainly, this investor's capital must work far more productively if his living standards are to be maintained. This is doubly true today when, like this investor, we all want to hold as many Defense Bonds as we can afford.

For an investor with this earning capacity and living standard, mounting costs of living are likely to add about $20 weekly according to my rough estimate. This means another $1,000 of income is needed. Victory tax on his salary will be close to $4.50 weekly. For a married person with no dependents (his son being 21) the personal income tax payable in 1943 will be approximately $700 higher than that paid in 1942. In short, a second $1,000 must be added for higher taxes.

Despite the fact that this list is composed 62% of common shares and that the two bonds are well below top quality—the yield of $1,101.25 on the current value of $27,180 means a return of only 4.05%. This is due largely to the small yield on the preferred stocks which are of investment rating.

I recommend that this investor immediately act to double his income from interest and dividends.

A Portfolio for Doubled Yield

BONDS	Current Price	Total Cost	Paid in 1942	Total Income
5,000 South. Pac. Co. 4½s 1981..	54½	$2,725.00	45.00	$225.00
5,000 Atl. Coast Line 4½s 1964..	64⅞	3,244.00	45.00	225.00
PREFERRED STOCK				
60 sh. National Supply 6% Pfd...	66¾	4,005.00	9.00	540.00
COMMON STOCKS				
300 sh. Celotex Corporation	9⅞	2,963.00	0.75	225.00
500 sh. Interlake Iron	7	3,500.00	0.50	250.00
200 sh. Mid-Continent Petroleum..	19¾	3,950.00	1.40	280.00
300 sh. N. Y. Cent. R.R.	11¾	3,525.00	1.00	300.00
500 sh. United Gas Improvement..	6¼	3,125.00	0.45	225.00
		$27,037		$2,270.00

However, this means only $1,101.25 more. If still more is needed, it must be made up by capital appreciation. Fortunately the conditions existing are such that I can recommend securities for appreciation. First, the investor has a substantial holding in life insurance and real estate plus smaller holdings in Defense Bonds and cash, this permits him to accept a business man's risk in his stocks and bonds which would not be the case if his sole capital lay in his investment account. Second, in my opinion the market in the year (*Please turn to page* 496)

HIGH YIELD BONDS

For Income and Appreciation

H. Armstrong Roberts

BY PIERRE R. BRETEY

WERE the investor of today, attempting to obtain guidance with regard to his investments in 1943, seek help from the economic trends of the past, he would find that the economic and financial history of the United States has been, in essence, but a series of cyclical waves. In the main, stock market movements have paralleled these business fluctuations. Prior to the establishment of the Federal Reserve System, the stock market usually made its peaks and bottoms six months prior to major turns in business, whereas subsequent to the establishment of a new central banking system both indices—business and stocks—tended to establish their peaks and bottoms simultaneously. That is not true of bond prices, however. More fundamental factors have affected bond prices, and in the past there have been long cycles of ten or more years, such as the cycle of longest duration culminating in extremely low yields in the period 1901-2, the 20-year reverse movement culminating in the extremely high yields of 1921, and most recently, the extremely long cycle of rising bond prices beginning in 1932-1933 and continuing to the present, primarily brought about by the monetary policies of the Roosevelt Administration.

In the early years of the Roosevelt Administration the bond market abounded with many high-yielding rail, utility and industrial issues. These high yields were obtainable as the aftermath of the long 1929-32 depression. But as business recovered from depression levels, all groups of bond prices rose sharply, yields fell, and by the early part of 1937 none of the three groups was available at levels furnishing adequate yields or possibilities of any appreciation of consequence. In 1938, however, there began a divergent movement as among the three groups whereby virtually all utility and industrial bonds continued to sell at high prices and offer low yields, whereas rail bonds declined sharply, and subsequently continued to remain at depressed levels up to and including the present, notwithstanding that in 1942 the level of railroad earning power was highest in the industry's history. Reasons for this anomaly have previously been advanced ("A New Age for Transportation" Jan. 23, 1942, page 401 f.f.). As a consequence of this paradox, there are today practically no high yielding bonds available save in the railroad field. This article, therefore, will limit itself to a consideration of rail bonds, with emphasis on three groups, namely Group I: "Marginal" or "borderline" roads; Group II: Income bonds of roads already reorganized; and, Group III: Reorganization or bankrupt roads.

Securities of the first group, those of the marginal or borderline roads, are attractive for investors primarily because of the existing probability that a vigorous policy of debt reduction may be inaugurated in 1943 by this group of carriers. Combination of highest earnings in history—almost $1 billion after fixed charges in 1942—and extremely large cash resources—over $1.5 billion at the 1942 year end, furnish reasons for believing that a debt retirement program is likely to be inaugurated this year. Further reason for expecting such a development not only this year but for the duration, is the I.C.C. suggestion that funds obtained from rate increases permitted in early 1942, be segregated for either (a) Additions or Betterments, or (b) debt reduction. Since the former is impossible under existing shortage of materials, the rails will of necessity be forced, should they accede to the I.C.C. request, to utilize such funds (approximately $300 million annually)

Recommended borderline issues at this time include:

	Current Price	Approximate Yield Current	Approximate Yield To Maturity
Southern Railway Dev. & Gen'l 4s, 1956	72	5.55%	7.22%
New York, Chicago & St. Louis Ref. 4½s, 1978	68	6.62%	6.92%
Central Pacific (Southern Pacific System) Through Short Line 1st 4s, 1954	77	5.20%	6.82%

For reasons herein provided, we favor purchase at this time of the following:

Issue	Current Price	Approximate Current Yield
Boston & Maine First 4s, 1960	75	5.33%(a)
Boston & Maine Inc. 4½s, 1960	44	10.22%
Erie Income 4½s, 2015	58	7.76%
Gulf, Mobile & Ohio 1st 4s, 1975	73	5.48%(b)
Gulf, Mobile & Ohio Inc. 5s, 2015	58	8.62%

(a) Yield to maturity 6.35% (b) Yield to maturity 5.85%

to retire debt. However, discrimination is essential in singling out securities in this group, since a number of roads have capital structures so top-heavy that an eventual readjustment seems probable despite some inevitable retirement of debt in 1943 and subsequent years. Such roads as the Baltimore and Ohio, the Illinois Central, and Northern Pacific —to name but three—would appear to be in this unhappy condition. However, other roads would seem to be more fortunately situated and may, should the period of high earnings last as long as we anticipate, be able to retire sufficient debt during such period to re-establish their credit position. Three such roads would seem to be Southern Pacific, Southern Railway and Nickel Plate. A brief discussion of each is herewith furnished.

Growing industrialization of the Pacific Coast improves the long term outlook for Southern Pacific. This road has been the greatest war beneficiary among the larger rails. While war advantages will be lost in post war period, a greater total of permanent traffic will remain. Southern Pacific has reduced its fixed charges from $31.4 to $29.5 million in the past decade, 1932 to 1941, or 6.1%. Fixed debt as of December 31, 1941 was $704.0 million; ten year average gross $194.3 million; ten year average available for charges $35.7 million to cover the above noted $29.5 million. In order to re-establish its former high credit rating, we estimate that this road according to our calculation, should retire some $240 million of debt. The extent to which the road may accomplish this purpose is indicated by its large cash resources, estimated at $90 million at the end of 1942 (tax liabilities are almost entirely covered by excess receivables over previous year—chiefly government obligations for carrying soldiers and war freight). Further, earnings over and above fixed charges should average some $60 million annually ($73 million in 1942) during the war period (with such earnings having to a large degree been made possible by large sums spent for rehabilitation) principally in the five-year period immediately preceding the war.

With such earnings and cash, it would appear that the road might well reduce its debt by $240 million necessary to re-establish its credit, concentrating on shorter-term maturities which are extremely heavy, totalling some $220 million maturing between now and 1949. Fortunately for the road, a good percentage of this debt is selling at a marked discount.

On the basis of mortgage position and traffic density, our selection of the most attractive bond of the Southern Pacific system is Central Pacific, Through Short Line 1st 4s, 1954.

Southern Railway is benefiting from the growing industrialization of the South, particularly from the growth of kraft paper, chemicals, plastics and steel. Future possibilities of the road are bright, especially as road and equipment have been rehabilitated and operating economies should be sustained in post war era. Past depression records should easily be bettered.

In the decade from 1932 to 1941, fixed charges were reduced from $17.1 to $15.9 million, or 7.0%. Total debt as of December 31, 1941 was $281 million. Ten year average gross was $94.0 million; ten year average earnings available for fixed charges, $18.8 million to cover the above noted $15.9 million. In order to re-establish its former high credit position, the Southern should, according to our calculations, retire some $75 million of debt. Possibility of this appears reasonably bright since year-end cash and equivalent was approximately $50 million (tax accruals, however, will necessitate a drain of some $25 million over and above receivables in excess of a year ago) and the road should earn annually for the duration some $30 million above fixed charges.

Southern Railway Debt Retirements

Since the road's large junior General Mortgage is available at fairly sizable discounts, the Southern should have little trouble in retiring the $75 million of debt estimated as necessary to re-establish the road's credit position. The road will in all likelihood concentrate its purchases in the immediate future on both the development and general 6s and 6½s, both above 90, of which $30 million of the former and $20 million of the latter are outstanding (end of 1941). These two issues represent, therefore, the best near term media. However, for the investor seeking greater percentage of appreciation, the 4s of 1956, identical in mortgage position and in every other respect including date of maturity, of which $61,330,000 are outstanding (end of 1941) would appear to be the more desirable issue. As a matter of fact immediate profit possibilities might even develop were the road to follow the precedent of the Baltimore & Ohio and call for tenders.

New York, Chicago & St. Louis system is located in the rapidly developing Great Lakes area and future outlook for this system is bright. In the past decade, 1932 to 1941, fixed charges were reduced

Other attractive rail bonds:

	Current Price	Interest Payment Disbursements 1942	1941
Western Pacific 1st 5s, 1946	38	$	$ ......
St. Paul Gen. 4½s, 1989	45	116.76	......
Chicago & Northwest Gen. 5s, 1987	36½	30.10	28.60
K. C., Fort Scott & Memphis 4s, 1936	68	129.00	49.00
St. Louis, San Francisco 4½s, 1978	22	39.84	12.41
Missouri Pacific Ref. 5s, 1980	38	50.00	25.00
New Orleans, Texas & Mexico 1st 5½s, 1954	55	110.00	27.50
New Haven Ref. 4½s, 1967	38	135.00	50.63

from $7.9 to $6.8 million, or 13.9%. Total debt (Dec. 31, 1941) was $132.9 million. Ten year average gross was $39.6 million; ten year average available for charges, $9.7 million; fixed charges (Dec. 31, 1941) $6.87 million. According to our estimates, credit of the Nickel Plate would be restored were the road to retire some $45 million of debt. At the 1942 year end the road perhaps had cash items of some $22 million, but these are quite small in view of heavy excess profit taxes which the road must pay. Total tax accruals will probably be over $20 million in 1942, thus absorbing the bulk of the company's existing cash resources. Relatively small cash is occasioned by the road's having anticipated near-term maturities in 1942 and years immediately previous. However, for the duration, Nickel Plate should earn about $10 million annually. In the immediate future, the road doubtless will concentrate in purchasing its 1947 maturity of $22.9 million. Ultimately the buying should spill over into the junior bonds and the Refunding 4½s, 1978, would seem to offer better than average possibilities, since signs point to credit of the Nickel Plate being restored as the aftermath of application of war-swollen earnings.

In addition to the marginal roads there are securities which appear well situated, particularly issues of roads either already reorganized or whose capital structure has been voluntarily adjusted. Virtually all these roads have had capitalization drastically readjusted. Of this group three roads, Boston & Maine, Gulf, Mobile & Ohio, and Erie, are worthy of mention.

Boston & Maine Fixed Charges Set

Voluntary reorganization of the Boston & Maine reduced fixed charges from $8.0 million to $4.73 million, since reduced to $4.6 million at the end of 1941. Fixed debt as of December 31, 1941, was $67.1 million; ten year average gross, $45.0 million; ten year average available for charges, $8.6 million to cover $4.6 million charges above stated. The road has taken steps to accelerate further reduction of its debt by a provision for moderate sinking funds, plus one-third of balance of earnings after charges. In 1942, there were approximately $3 million for that purpose. Both First Mortgage and Income bonds present better than average profit possibilities.

Gulf, Mobile & Ohio was formed by merging a solvent with an insolvent carrier. Company is likely to be one of those which will run counter to the long-term downward secular trend of the industry, benefiting from the factors emphasized in our discussion of Southern Railway. Operating economies incidental to the merger render past performances rather meaningless. Under worst depression circumstances we can envisage, coverage of fixed charges would be adequate. New fixed charges now require less than 8% of average gross. No A & B fund has been set up, and sinking fund is only ½ of 1% of principal amount of bonds outstanding. However, surplus earnings will probably be used to retire debt during current prosperous period. Both First Mortgage and Income bonds offer good yield and provide possibilities of appreciation.

Much has been written on Erie, in virtually all financial publications. We shall therefore merely high-light this situation. Erie reduced its fixed charges in reorganization from $13.86 million to less than $7.0 million—admittedly quite drastic. The road now requires from 5 to 8% of its gross to meet new charges. With new capitalization so drastically adjusted, new Income bonds are particularly well situated. Interest has been earned in each of the last 50 years except 1938. (*Please turn to page* 500)

The drastic character of reorganization is illustrated by treatment afforded the large mortgage issues of the following roads.

Northwestern New Securities to Be Issued

	1st 4s,/89	Inc. 4½s/99	Pfd. Stock (sh.)	Com. Stock (sh.)
Gen. 5s/87	208	485	4.47	0.43
Ref. 5s, 2037	154	233	3.07	4.85

A similar pattern is followed in the St. Paul reorganization:

St. Paul New Securities to Be Issued

	1st 4s,/89	"A" Income 4½, 2014	"B" Income 4½s, 2039	Pfd. Stock (sh.)	Com. Stock (sh.)
Gen. 4½s, 1989	280	392	224.00	2.24	......
Gold 5s, 1975	......	......	179.38	7.17	2.99

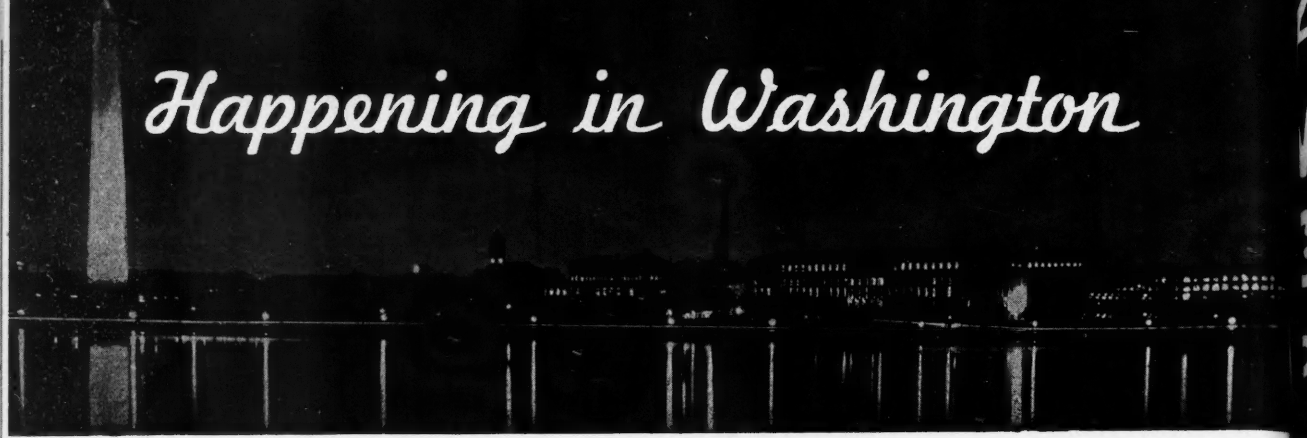
It is not generally realized how drastic such reorganizations have been. We can best illustrate this point by furnishing a table with estimated earnings of the N.W. in a depression year (Column A) and in a boom year (Column B). No adjustment has been made for almost certain retirement of portions of senior debt with existing large cash resources of this road, which retirement would greatly improve coverage on new bonds to be issued.

CHICAGO AND NORTHWESTERN

	(000 Omitted) Column A (Estimated Earnings in Future Depression Years)	Column B Boom Year Earnings Measured by 1942 Results (Est.)
Available for Charges	10,500	26,500
First Mortgage Interest	4,045	4,045
Times Fixed Charges Earned	2.59x	6.55x
Available for Contingent Charges	6,455	22,455
Serial Note Maturities, S. F. & Commutable Int.	1,512	1,512
Additions & Betterments Fund	2,500	2,500
Available for Income Bonds	2,433	18,443
Int. on Income 4½s, 1999	4,727	4,727
S. F. Income 4½s, 1999	525	525
Times Coverage Inc. 4½s, 1999	0.52x	3.90x
Amt. Earned Income 1½s	$23.22	$175.50
Available for Preferred	....	13,191
Dividend Requirements, Preferred	5,349	5,349
	....	$12.32
Available for Common	....	7,842
Earned on 1,077,997 Shares Common x	....	7.27

x—Under original plan 1,203,997 sh. were to be issued; with no need of issuance of $13,000,000 1st mtge. bonds as originally planned; number of shares of common are reduced proportionately.

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

Erzatz foods will make their appearance in increasing numbers. OPA already has found the coffee market taken over by substitutes—combinations of roasted cereals, molasses and corn oils for the most part, mixtures of real coffee and roasted cereals to a lesser extent. Ceiling prices ranging from four cents per pound upward are being set to encourage wartime shift to the more plentiful beverage ingredient.

Price Rises on food commodities lie ahead, Leon Henderson and his successor, Prentiss Brown, agreed. The honeymoon period of business expansion has come to an end and cost levels are crowding price ceilings, was Henderson's way of putting it. Brown was more direct: living costs, he said, will increase about one-half per cent a month in 1943—projecting a six per cent rise during the year.

Washington Sees:

Business and industry should begin preparing now for a post-war siege of litigation greatly surpassing the series of suits and prosecution which followed the Armistice of 1918.

The Department of Justice is cramming its files with data to be extracted and placed before grand juries and judges when the last round is fired. The Truman and Faddis Committees have conducted continuing inquiries into production practices and contracts; while the renegotiation program has levelled off profits in many fields to the point where little post-war recapture seems indicated, a prolific source of actions will nevertheless be found.

Today the Department of Justice has 20 important antitrust cases fully prepared and ready for submission to grand juries when the war ends; 742 other cases are under investigation. A full-fledged and amply staffed War Frauds Unit is digging into reports of collusive bidding, high costs of materials and services, use of defective or faulty products, and numerous other subjects.

The immediate post-war period already seems certain to become a "lawyers' holiday."

Purge of radical elements which have attached themselves to the Administration was the objective of Southern Congressmen who led the successful fight against giving New York's leftist Rep. Vito Marcantonio a place on the powerful judiciary committee. The caucus action has few precedents. Marcantonio once ran for office as a Communist; as a Congressman he opposed every war measure until Russia was invaded by Hitler. As one of 21 judiciary committee members his voice would be weak, and the Southerners knew it. But they "served notice."

Cooperatives have many friends in the current Congress. Rural members, naturally, form the nucleus of a movement that will be heard from as the months pass. The economy of distribution is in for complete overhauling, with the narrowed profits on agricultural products giving impetus to the demand for federally-encouraged, if not federally-financed, cooperative distribution. The "middleman" is on trial once more.

Manpower problems of the farm and factory are being accentuated by isolated, but ominous, outcroppings of well-intentioned attemps to shame men into uniform, with the result that employers are reporting the loss of essential men to the services. It hasn't matched World War 1, when busybody women pinned white feathers upon males in civvies, but it definitely has reached the danger point. And a campaign will be instituted by War Manpower Commission Chief Paul V. McNutt to persuade essential men that it is patriotic for them to remain at their lathes and threshers, and the 3,000-odd other jobs that are vital to the war effort.

Grade Labeling by force of law has made its appearance in an OPA order fixing dollars-and-cents ceilings for canned grapefruit juice. Grade labeling presumes that any salable product can be slotted into one of a limited number of quality categories—it is No. 1, No. 2, or No. 3, and there are no intermediate values. Factors of taste, arising out of production of basic item in a favorable climate, etc., go by the boards. Advertising will suffer.

AS WE GO TO PRESS

A shift in emphasis on relief measures from producers and transporters, to distributors, is in the offing. Commerce Department is sampling effects of materials and labor shortages on that group.

Where multi-line selling is the order—hardware for instance—the report will show 80 per cent of the outlets can survive for the duration. Where a single line, no longer produced, is handled—radio, for instance—60 per cent will not survive another year of war.

Switch from sales to repair and maintenance isn't a solution for the merchandising side of radio. Dealers stocked heavily on parts can't find skilled repairmen.

Dollar-a-year men who joined government bureaus knowing they'd be targets for competitors and publicity-seeking congressmen, have had the first pot-shot taken at them from within the government. Agriculture Secretary Wickard has barred w. o. c. (without compensation) executives from the food program.

Wickard's "policy" lacks ring of sincerity. Below the headline-grabbing statement that he doesn't want any w. o. c.'s in his setup, appears the statement that he will use men in that category as "consultants."

Placing of ceiling price over corn is forerunner of new drive to halt the rapid advance in basic food prices. Used chiefly to feed livestock and poultry, corn ceiling can control prices of meat, dairy products and poultry,—without discouraging production.

Similar ceilings on other basic products will be along shortly—if the farm bloc doesn't balk. Actually, corn hasn't reached parity price; there's ground for challenging legality of a ceiling.

Government is one business that seems able to continue indefinitely on deficit spending. Sobering thought is the fact that estimated total value of public assets that could be thrown in for liquidation is $309,000,000,000; funds authorized and appropriated for war purposes, plus requirements of the new budget amount to $320,000,000,000.

Colossal expenditures for war, past, present, and contemplated, actually exceed the assessed valuation of the country, as well as the national wealth.

Limitation of salaries—even total incomes—to $25,000 a year, continues to be dangerously attractive argument in the hands of Capitol Hill demagogs. More so, as hugeness of the war budget sinks into public consciousness. Simple arithmetic of the matter is that net additional contributions by the wealthy under such a regulation wouldn't pay the costs of war for five days.

Actual 1942 spending was $52,406,000,000—nearly four times the 1941 disbursements. Average daily cost was $169,000,000. But the speeded tempo is reflected in the fact that against this year-around average, December daily spending totaled $235,000,000.

The word "compulsory" will fade out of all formal texts on man-power handling and the principle of compulsion no longer is favored. Women will not be required to take war work. They will be invited to do so, their patriotism appealed to, but there won't be a law.

Total mobilization under a single head—production, procurement, civilian supply, and military personnel—will be urged from now on with redoubled vigor.

The governmental alphabet is about due for reshuffling, but F. D. R. won't go this far.

Inside the huge Pentagon Building there is more worriment than ever over Russia and China. They'll soon be invited to step up from

associates to full partners in the United Nations war effort. Russia takes the not unreasonable position that she's carrying the brunt of the attack with too little aid. China feels she's being sacrificed; doesn't like the "Hitler-is-our-No.-1-enemy" policy.

Certainty that new "fronts" will be opened soon on the European sector, with, perhaps, a token "front" in the South Pacific, promises to siphon away aid reserved for the latter area, further complicate the situation.

How to assuage China's feelings while indirectly supplying greater aid to Russia, a nation that isn't even at war with her assailant, Japan, requires a job of selling. War strategists think the problem may be solved by giving China a greater voice in decisions—future decisions.

The Office of Price Administration has placed banking on a piecework basis—30 cents for opening an account; 10 cents for monthly service fees on accounts; 10 cents for each deposit made; .005 cents for each item included in a deposit, and so on. These are the fees government will pay banks for handling ration accounts. The banks have accepted; probably have established precedents that will be cited to them in the future.

Odd spectacle of a producer group fighting with vigor against subsidies in their favor, and meeting stubborn resistance, is found in the current agricultural muddle.

Two leading farm organizations have pleaded with government to end the subsidy plan. Artificial costing of food items does justice neither to the farmer nor the consumer, they contend. They'll fight the next Commodity Credit appropriation bill—probably a one billion dollar grant—on the theory that it won't prevent inflation, but simply conceal costs paid by the consumer, direct or through taxation.

Surprisingly enough, four out of each five automobile retail dealers have weathered the first year of war and still are in business. R F C loans under the Murray-Patman Act transfused life blood into agencies having cars "frozen" in their hands. But repair work is the sustenance. Now Selective Service is tapping the force of mechanics giving rise to the likelihood that maintenance may match rubber shortage as the prime automotive problem of 1943.

Signs of the Times: nearby Front Royal, Va., is building parallel highways—a 14-foot topsoil wagon road along side a 22-foot high-type concrete highway. And the horse-and-buggy road will be built first.

Recapping of civilian automobile tires will come in for early curtailment. War Department finds 75 per cent of employees in war production plants drive both ways, and 5,000 miles is the average "life expectancy" of most of their rubber. Dire forecast is that majority of war workers cars will be out of service by July 1.

Look for early departure of newspaper "specialties"—overly large comic supplements, multiple back-of-the-news columns, possibly book review sections. Newsprint shortage, growing worse rather than better as problems of manpower, transportation and shift of electrical energy multiply, make up the reasons. Government won't tell publishers what features to drop; the cut will be horizontal putting it up to the individual publisher to say what remains in, what goes out.

Investigation will be a prime work of the 78th Congress. Martin Dies will get more funds to ferret out subversive forces. Senator Harry Truman will continue his probe of war production. Federal Communications Commission will be examined in surroundings as acrimonious as the Teapot Dome inquiry. Over-staffed federal agencies will be limelighted. O P A will be taken apart by a House committee. Half a dozen others are in prospect.

1943 SPECIAL

Re-Appraisals of Earnings and Dividend Forecasts—

PART ONE

Outlook and Ratings for Individual Machinery and Machine Tool Stocks, Foods, Utilities, Tobaccos and Motion Pictures

Periodic re-appraisal of investment and speculative holdings is an essential safeguard against changing conditions which threaten or potentially threaten either capital values or income return or both. The military, political, economic and financial changes affecting security values today are more numerous and rapid than ever before. Especially in the case of common stocks, watchfulness is imperative.

To serve this need The Magazine of Wall Street, as for many years past, presents its special Re-Appraisals of Earnings and the accompanying Dividend Forecasts at six-month intervals—besides, of course, its regular bi-weekly coverage of all significant developments important to investors.

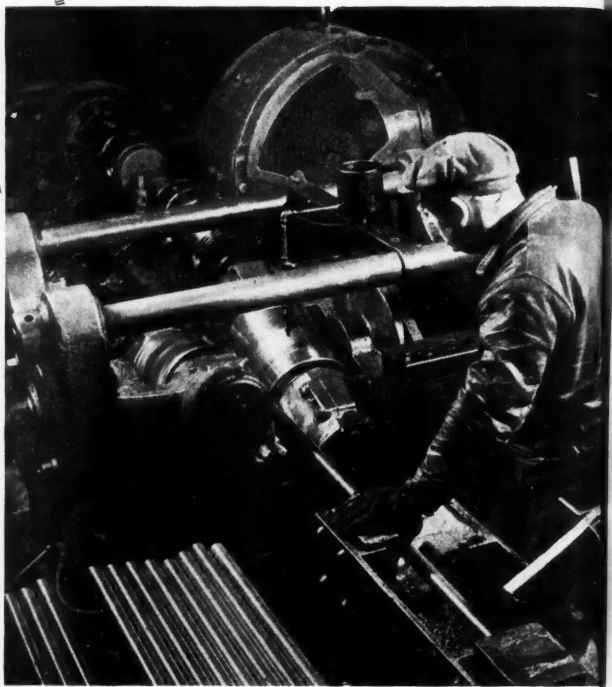
Our thousands of readers in the aggregate hold stocks of many hundreds of corporations. Thus, lengthy individual re-appraisals in this service feature would permit coverage of too few to be adequately useful. Hence our effort on the subsequent pages is to present the most pertinent information and ratings on the maximum possible number of issues as concisely as possible for the convenience of our subscribers.

It is important to bear in mind that current earning power of various war-active companies is abnormally good and thus not indicative of future potentialities. Similarly, depressed "war casualty" earnings are also abnormal. For these reasons, as a handy reference guide, our tabulations show for comparison the average pre-war earnings and dividends of 1936-1939. Book values and—where feasible—net quick assets per share are also shown and are of considerable interest in an inflation era. We present a double rating system in parallel columns, the first covering the stock's investment status, with reference to earnings, dividends, financial strength, etc., under war conditions; the second representing an investment rating of peace-time prospect and potentiality. The key to both is simple, as follows: A — High Grade; B—Good; C—Fair; D—Marginal.

Selected issues favored for capital gain are denoted by a dagger symbol in the tabulations; for safe income, a star; for income and appreciation, an asterisk. For guidance on timing of purchases for appreciation, watch the continuing advice given in our regular market analysis article.

Basic Readjustment Ahead for MACHINERY and MACHINE TOOLS

Profit and Dividend Prospects as War Orders Begin to Taper Off



Crucible Steel Co.

THE machine tool industry's shipments in 1942 are estimated to have exceeded $1,300,000,000. This is an increase of about 68% over 1941's record shipments of $775,000,000. How rapidly the output of the industry has expanded under the stimulus of war demand is not generally realized. In 1940, which was regarded as a very good year, shipments were only about $450,000,000; in 1939, output was about $200,000,000; in the depression year of 1932, only $22,000,000 worth of machine tools were shipped, and some of these came from inventories previously produced. In fact, in the years before the war, an annual production of $150,000,000 was considered "good." Thus the 1942 output was something like 766% better than the industry's pre-war idea of a "good" year!

It has been the machine tool industry's job to get the rest of American industry equipped to produce airplanes, tanks, guns and all manner of other machines and devices necessary to wage the greatest mechanized war in history. Both the figures just quoted and the current output of planes, tanks, guns and engines of war witness to a most remarkable accomplishment. The machine tool industry has performed a modern industrial miracle. This speaks well for the industry's patriotism, its management, and its ability to train new skilled mechanics. Furthermore, earnings reported by the leading companies have been most gratifying—and dividends to stockholders have been far above normal.

Production still is proceeding at a remarkably high rate, probably $130,000,000 to $135,000,000 per month; but, as should be expected, the industry is beginning to eat into its backlog of unfilled orders. The job of equipping the war plant of America is approaching completion. Forward business on the books of machine tool companies at the beginning of the year was about $1,012,000,000, or roughly 7½ months output, and new orders no longer equal shipments.

The best authorities think that first half output in 1943 will be as large as output in the last half of 1942, but the production in the second half year will be lower than in the first half. Perhaps 1943's total output will be as large as that of 1942, but it won't be importantly larger. Regardless of the duration of the war, there is little probability that 1944 will see the machine tool industry anything like as active on war work as in the current year. The job of providing initial equipment for the nation's war plant is approaching completion. The time of readjustment of peace conditions in this industry soon will be at hand.

Right here it should be pointed out that there are all kinds of machine tools, and some tools which are not really machine tools of the type in which the war

program is nearing completion. There is also the machinery industry, outside of machine tools, where there are to be found production programs nearing completion and other programs still in full bloom. For instance, General Machinery is making propulsion machinery for ships and we are making ships faster than ever. A large number of machinery and machine tool companies are making shells and torpedoes and will remain active so long as the war lasts. There are always new "special" tools required, especially as production shifts from one type of war machine to some new type or some new invention. The trouble is that it is hard to know what companies are rounding out their task and what ones are still hard at it and have much more to accomplish. Much of the information the analyst of machine tool and machinery shares would like to have is "a military secret."

Deferred Demands

Here and there, however, we can get some hints. One is the reappearance of the machine tool salesman, long out of circulation. Some machine tool companies are beginning to solicit business outside the armament industry, pointing out that capacity soon will be available to make machine tools for users up to now unable to obtain priorities. There is what usually would be regarded a large accumulated deferred demand for the products of this industry as well as for the products of the miscellaneous machinery industry all outside of the war effort. Probably this normal "peace-time" demand will be an important cushion in the second half of 1943 and in part of 1944 if the needed metals can be had.

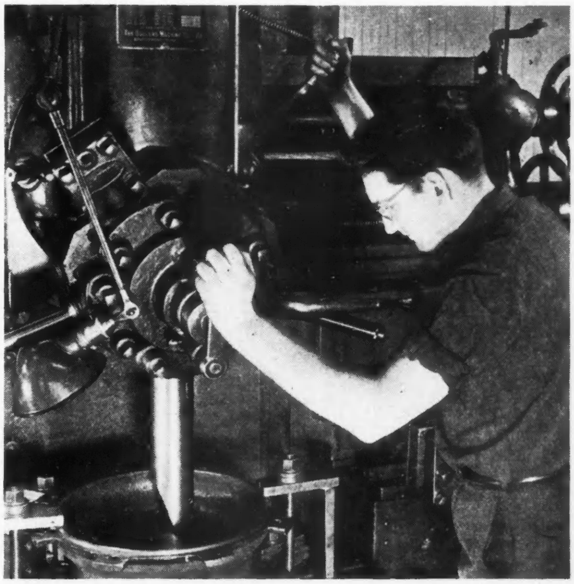
The non-armament industry demand in 1943 and early 1944, however, is likely to be nothing more than a stop-gap. The big questions about the demand for machine tools in the next five years are difficult to answer. Obviously it won't come from the armament industry; that is pretty well equipped, or will be by the autumn of 1943. Equally obviously, the plants which have needed machine tools and have been unable to obtain them because of priorities can cover their requirements rather rapidly. The big questions surround the machine tool demands of industry as it reequips for a peace economy. To clear the atmosphere, it should be recognized at the outset that this demand will not amount to shipments as large as the $1,300,000,000 total for 1942. If half this production should be demanded, the industry would boom; and somewhere between 15% and 25% of the 1942 production probably would mean a fairly good peace-time business.

Some companies never were prosperous in peacetime and are engaged in making types of machine tools and machinery for which there is unlikely to be much peace demand. E. W. Bliss Company probably is one of them. Others make "staples" and have managements which have been able to do well in good times and bad. The year-in-and-year-out reports of outfits like Brown & Sharp, Kearney & Trecker, Pratt & Whitney, Cincinnati Milling Machine, Warner & Swasey, National Acme, Bullard, Jones & Lamson, Lodge & Shipley and Buffalo Forge are such as to inspire some confidence in their future.

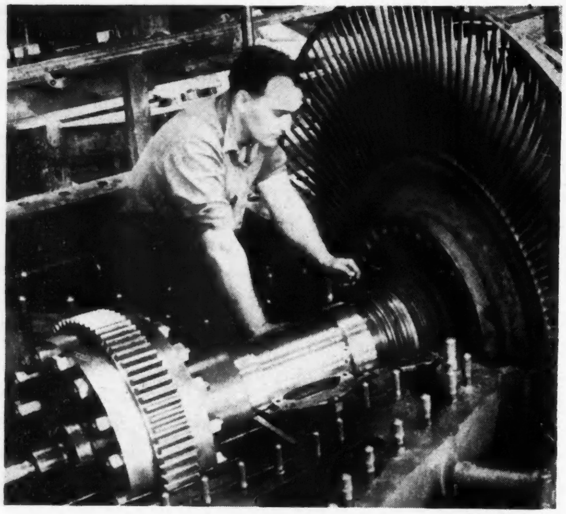
But, it may be objected, there never were so many machine tools in existence as there will be at the end of the war. Many of these machines will not be worn out, some of them will not have been used hardly at all. Of course some types will not be applicable to peace-time industrial work, having been made especially and exclusively for the war effort. Others, on the other hand will be standard lathes, screw machines, presses, etc., easily adjusted to some other line of manufacture. They will make possible a secondary market for machine tools. There will be second-hand machine tools and machines available. Some of them will have to be rebuilt or changed, but others can be used almost without alteration.

There is another side to this, though, which should not be overlooked. Machine tools are delicate things, and ordinarily they are operated by experienced mechanics for relatively short hours. During the war most of them have been operated by inexperienced mechanics, sometimes by women, and usually for very long hours. The matter of wear and tear as well as of abuse and obsolescence is to be considered. A very large part of the nation's immense stock of machine tools may not be fit for the secondary market. Some fundamental parts may be unharmed. Probably there will be a big repair and rebuilding business for qualified organizations.

Every thoughtful person can see that one of the things the world is going to gain from this war is technological progress in the field of mechanics and invention. During the next few years, assuming that peace comes, many new devices and products will be introduced into the world and all of them will demand machinery to manufacture. Most of them will be of such a nature that rather complicated machine tools and machinery will be needed. It is conceivable, even probable that after a slump in the machinery and machine tool industries imme-



Westinghouse



Westinghouse

diately after the war, there will be a huge demand for the instruments of mechanical production.

This is likely to be supplemented, too, by a large export demand for all types of machinery. If we are to build a durable peace, we must loan money to the countries of the world and enable them to increase their living standards. In loaning money, we really will be loaning, if we are wise, the instruments of production as a more or less permanent investment. We can't wisely keep all this mechanical and technological progress at home. Indeed, if we do, we will be defeating our own ends and limiting our own markets. It is possible that we will have an export boom in machinery.

To a greater extent than the production of steel and non-ferrous metals, the machine tool and machinery industries are in the prince-or-pauper class. This business is either a feast or a famine. As already has been stated, in 1932 total shipments of machine tools amounted to only about $22,000,000; one major company that year actually sold only 14 lathes—every one of these from stock. In 1942, the industry's shipments were 60 times the 1932 total! This is an unusually wide fluctuation, the widest the industry ever has experienced, but it is nothing uncommon for the machine tool makers to sell five or six times as much stuff in a good year as in a bad one.

Recognizing this unstable characteristic, the leading makers of machine tools and machinery have been reluctant to take the public into partnership. A great company like Cincinnati Milling Machine still is privately owned. Kearney & Trecker, Warner & Swasey, and Buffalo Forge are concerns in which there has been a large public ownership only a little more than a year; and the only reason they are publicly owned now is that estates have had to raise money to pay inheritance taxes. No investor should own a machine tool stock unless he is prepared to assume the risk of irregular earnings and dividends; they are inherent in the business.

To buy such securities now, of course, is to buy them in the final months of a great boom. This explains why they are selling at such fantastic prices in relation to earnings and dividends. It explains price earnings ratios of 1½ times, 2 times and 3 times earnings and yields of 12%, 15% and even 20% based on recent rates of dividend distribution.

The machinery industry, as separate and apart from the machine tool industry, usually has been more stable. A company like United Shoe Machinery, which specializes in a "repeat" market and royalty field, has an enviable record for dependable earnings. Concerns like Ingersoll-Rand and Fairbanks, Morse & Co. have attained a fair degree of stability, and their shares (*Please turn to page* 498)

Position of Leading Machinery and Machine Tool Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Amer. Mach. & Fdy...	15.96	4.30	1.01	1.37	1.30E	0.90	0.80	B	C	Further ventures into other fields seen as lessening dependence on cigar and cigarette machinery business as chief revenue source after the war. Finances are sound, and no change in current dividend basis is expected.
Babcock & Wilcox........	39.65	28.30	2.65	6.33	4.80E	2.02	1.50	B	D	Past decade earnings record erratic. Completion of shipbuilding program may be followed by sharp drop in operations. Dividend payments will probably be continued during 1943.
Black & Decker	18.06	10.85	1.98	3.78Se	1.72Se	0.75	1.60	B	C	Heavy taxes will probably further depress earnings in current fiscal year. Research activities should help company hold good position in portable electrical tool trade in peace years. Usual dividend indicated.
E. W. Bliss	19.00	14.00	0.48	5.63	NE	None	2.00	B	D	Earnings record is erratic, and post-war period will doubtless witness a return to the wide fluctuations between profits and deficits. Continuation of 1942 dividend basis this year is questionable.
Bucyrus Erie	16.69	5.72	0.80	1.65	1.20E	0.31	0.50	B	D	Post-war demand for excavating machinery will not maintain the rate induced by war factors. Reversion to former unimpressive earnings record anticipated. However, 1943 dividends on common may equal last year's payments.
Buffalo Forge	17.80	8.10	1.71	3.50	3.25E	0.50(b)	2.00	B	C	War-inspired demand for varied equipment will continue at high levels. Rehabilitation needs will probably prevent sharp post-war drop in operations. This year's dividends may approximate 1942 payments.
Bullard Co.	19.53	(a)	1.66	7.17	7.00E	1.06	2.50	B	C	Revival of auto manufacture after the war seen as facilitating transition to peace-time basis. Aviation equipment demand should also be helpful. $0.50 quarterly dividends will probably be continued.

Position of Leading Machinery and Machine Tool Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Divi-dends Paid	War Rating	Peace Rating	COMMENT
*Caterpillar Trac. Co.	25.13	13.30	3.69	4.14	3.60E	2.12	2.00	B	B	Demand from agriculture, road building, mining, oil field and other sources may be fairly well-sustained in immediate post-war period. Finances are sound, and present $2.00 dividend basis will probably be maintained.
Chicago Pneu. Tool	8.95	7.74	1.33	6.15	6.00E	None	2.50	B	D	Renegotiation factors may affect 1943 results. In post-war period, earnings may resume wide fluctuations resulting from extensive variation in demand. Current $0.50 quarterly basis on common should be maintained for near future.
Compo Shoe Machy.	6.60	(a)	0.53	1.45	1.35E	1.77	0.80	B	C	Leather shortages will affect income from leased shoe machinery, though war items will sustain overall volume. Keen competition features industry, but company's position is strong. No change seen in $0.15 quarterly common basis.
Ex-Cello Corp.	16.35	0.79	1.52	6.22(c)	9.50E	0.86	2.60	B	C	High volume, but lower profit margins, expected for duration. Normal markets well-diversified. Aviation, most important outlet, should aid overall sales status after war. Regular $2.60 dividend indicated.
*Fairbanks, Morse	42.06	20.46	2.96	4.87	6.00E	1.25	2.50	B	C	Output for heavy industry diversified. Increasing Diesel engine use is favorable post-war factor. Dividend policies conservative, but 1943 payments may equal last year's total.
*Food Machinery	24.61	8.50	2.83	4.275e	4.075e	1.81	1.75	B	C	Comparative stability of demand from food trades features normal operations. Automotive specialty lines should be helpful in post-war period. Finances are strong. Continuation of regular $1.75 dividend basis expected.
Foster Wheeler	23.92	11.20	d0.51	4.77	5.00E	None	None	B	D	Boiler equipment and oil refinery machinery are principal normal products. Pre-war record unimpressive. Return to unsatisfactory profit status probable with end of war.
Ingersoll Rand	38.55	27.60	6.86	8.19	8.00E	5.87	6.00	B	C	Heavy industry outlets extensive. Strong trade position should assure normal quotas in peace time. Finances strong. Dividend policies liberal. Usual $6.00 common dividends expected for 1943.
Link Belt	26.48	13.70	2.75	4.39	4.50E	2.31	2.00	B	C	Company holds strong position in steel chain, conveyor and power transmission field. Moderate earnings levels anticipated in peace era. Regular $2.00 common dividend should be maintained.
Mesta Machine	14.68	4.70	3.64	3.78	3.50E	3.00	2.87	B	C	Approach of maximum steel producing capacity, an important revenue source, detracts somewhat from long-term prospects. Financial position satisfactory. Reduced $0.62½ dividend basis may be continued.
Monarch Mach. Tool	17.50	8.54	2.70	7.14	11.00E	1.59	3.00	B	C	Return to normal industrial conditions will doubtless be accompanied by sharp earnings decline. This is reflected in conservative dividend policy, despite large current profits.
National Acme	17.34	13.38	1.44	6.29	9.00E	0.62	2.00	B	D	Revived automotive demand after war should mitigate inevitable post-war slump in profits. Pre-war earnings record was irregular. $2.00 dividend basis should be continued for near future.
National Supply	10.40	(a)	1.31	3.06	1.50E	None	None	C	C	Facilities being fully utilized for duration. Increased oil-well drilling essential to sustain post-war operations. No dividend on common stock in prospect.
Niles-Bement-Pond	11.13	7.76	5.27	3.26	5.00E	1.50	1.25	B	C	Normal markets are well-diversified. Potentialities in automotive and aviation tool fields should cushion the effects of post-war contraction. Dividends in 1943 may equal last year's payments.
Savage Arms	32.43	6.50	1.65	5.17	3.00E	1.06	1.75	C	D	Output devoted to Government work for duration. Return to unimpressive pre-war earnings record foreseen for later years. Somewhat lower dividends in prospect for this year.
United Engr. & Fdy.	13.45	(a)	3.64	3.96	2.00E	3.06	2.25	B	C	Capacity presently fully utilized. Rehabilitation needs will help after war, but prospective excess steel mill capacity is seen as limiting demand in post-war period. Strong finances suggest possible $2.25 common dividends this year.
U.S. Hoffman Mchy.	21.20	21.16	2.75	2.88	1.30E	None	0.50	B	C	Ordnance contracts sustaining war time operations. Accumulating demand for normal lines may prevent sharp post-war contraction, but long-time outlook unimpressive. 1943 dividends uncertain.
Walworth	2.79	(a)	0.14	1.45	1.50E	0.06	0.50	C	D	Pre-war record only fair, and there is little likelihood that post-war rehabilitation orders can materially improve peace-time earnings status. Dividend outlook is not attractive.
Wayne Pump	20.00	11.38	4.28	3.56	2.60E	1.75	2.00	C	C	Filling station equipment patent situation strong, thus affording fair post-war prospects for replacement and new business. Regular $2.00 dividend basis will probably be maintained.
Worthington Pump	32.44	(a)	0.26	8.42	11.00E	None	None	B	D	Erratic pre-war earnings record is likely to be repeated in the years ahead. Large arrears on old Class A and B preferreds preclude consideration of payments on common stock.

(a)—Senior capitalization exceeds net quick assets for common. (b)—1937-39 average. (c)—11 mos. Nov. d—Deficit. E—Estimated. Se—Year ended September. *—Recommended for income and appreciation. B—Good. C—Fair. D—Marginal.

Lower Earnings For Most Food Companies


Caterpillar Tractor Co.

Investment Status of Favored Issues Remains Secure

Last year's crops exceeded 1941 by 14%, and the previous record year of 1937 by 12%. About 13% of our food last year was diverted to the armed forces and lease-lend—the latter took $1,267,553,000 worth of farm products—while the laboring classes ate more heartily and housewives stocked up on delicacies. No wonder prices advanced nearly 40% in three years, despite Leon Henderson's best efforts. Wholesale grocery inventories in November were 14% below 1941.

This year probably 20-25% of our food supplies will be diverted to the Federal Government. Part of this demand is due to the big appetite of the soldier, who eats one-third more than a civilian. Military and lend-lease this year will take one-quarter of our meat, one-third of the lard, nearly one-third of the eggs and half our canned vegetables. However, compared with average 1935-9 consumption, it is said, civilians will still be well fed, getting considerably more poultry, citrus fruits and cereals than during that period, while the per capita reduction in dairy products, eggs, potatoes and vegetables will not exceed 5 or 10%. More peanuts and soy beans will be used for filler in "ersatz" sausages, etc. Apartment house dwellers, accustomed to living out of tin cans, may feel the pinch, with the exception of baby foods, many canned foods seem likely to disappear and canned soup will be reduced about one-half. Glass will be used more largely for containers.

The farmer did a marvelous job (with the aid of nature) last year, and is asked to duplicate in 1943—in fact, an over-all one per cent increase, with acreage about the same, has been requested. Vegetables will be reduced, but certain crops and livestock increased. Last year the food industries lost about 1,600,000 workers (about one-tenth of the total engaged in planting, harvesting, processing and distributing). This year labor problems will be even worse and Washington is planning a "land army" of 3,500,000 for seasonal farm work—using women, clerks and "non-essential" labor. There is talk in Congress of limiting defense forces to 7,500,000 in order to keep farm help on the job. Thus far planting conditions have been excellent, and fall pastures the best in 20 years.

Due to the steel shortage, farm machinery production has been reduced to 20% of the 1940 rate but labor-saving devices such as milking machines can be produced at much higher quotas, and spare parts will be produced at 135% of the 1940 rate. Moreover, WPB will allow all of 1943 steel to be used in the first half and will then reappraise farm needs and steel supply. WPB thinks the farmers are already pretty well supplied with machinery and possibly they are right but one difficulty is the complicated system for allocating new equipment by counties. The system is said to be cumbersome, costly and likely to prove arbitrary and inefficient. Fertilizers (hurt by the use of nitrates for explosives) will be fed to the farmers on a priority basis for "essential crops." Liberal Government loans are available.

Distribution Factors Causing Concern

Washington is concerned about distribution as well as production. The farmer uses one-quarter of the nation's trucks—as tires give out he will make greater use of the railroads. Bottlenecks may develop in movement of live stock and major crops. Food comes to us from 6,000,000 farms via some 50,000 processing plants and 600,000 retail outlets. Under the rationing system shortly to go into effect (using the flexible "point" system developed in England) one-twelfth of the annual food supply will be released to the retail trade each month to make for a more orderly distribution. A nationwide auxiliary banking system (using the regular commercial banks, and already tested in northern New York) designed to handle billions of ration coupons for foods and other goods will soon be operating throughout the country.

The introduction of Government controls—

especially when they are theoretical rather than practical—may cause many irregularities in the production, distribution and pricing of food products in 1943. Farm prices are still rising and the Congress farm bloc is moving toward the inclusion of all labor costs in computing farm parity prices. On the other hand, the Administration has moved to check the advance in wheat prices by selling some of the huge Government stocks acquired under farm loans. In 1942 there was considerable difficulty due to the lack of correlation of retail price ceilings with rising farm prices—processors and retailers were "squeezed" between the OPA and the farm bloc. Possibly Prentiss Brown, new OPA head, will give quicker relief to processors and retailers and iron out some of the defects in present regulations which have resulted in local shortages, black markets, etc.

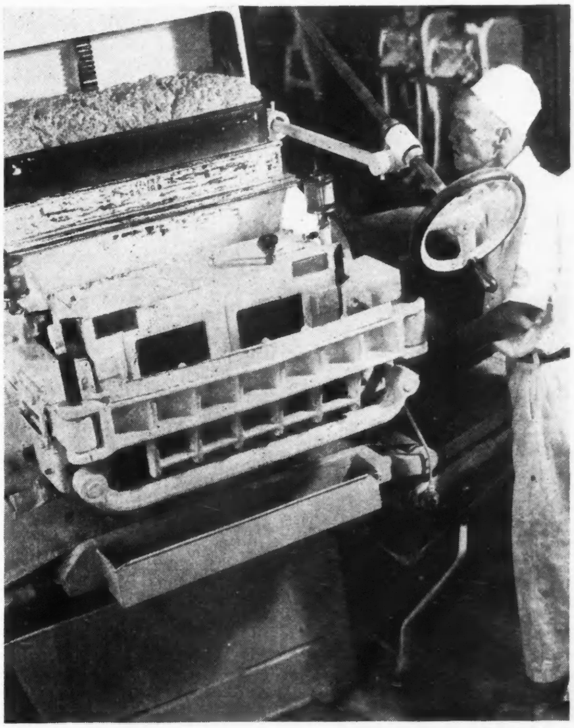
Problems to be Faced in 1943

Under these conditions it is increasingly difficult to forecast 1943 outlook for the various branches of the food industry, which are usually on a healthily competitive but stable operating basis. Branded and packaged foods have in the past commanded premium prices based on national advertising; under present conditions advertising expenses can be trimmed and profits bolstered—except where substitutes such as Sanka are being opportunely "pushed". But branded goods will be affected by new government policies on "cross-hauling" and grade labeling, designed to eliminate excess transportation. Cross-hauling means that manufacturers would produce only for near-by territory, provided consumers in other districts can secure comparable goods of a different brand. OPA ideas for a new simplified system of grade labeling (to replace adjectives such as "standard," "choice" and "fancy" to which the trade has been accustomed) are opposed by the canners as arbitrary and confusing.

Another uncertainty is the amount of profit margin allowed by the armed forces in their huge purchases for the military forces, lease-lend, etc. While it is felt that the Government does not "bear down" too heavily, nevertheless the tendency is toward small profit margins both due to the size of the purchases and the well known New Deal antipathy to large profits. In the meat packing industry (reviewed in the Magazine of Wall Street for Jan. 23, page 414) it was indicated that while the packing companies' dollar sales had increased enormously in the past two years (partly due to rising prices) profit margins were smaller than ever.

While final results for 1942 are not yet available, estimated earnings for the miscellaneous "package" and brand food companies were generally unfavorable as compared with 1941—due in part, of course, to higher taxes. Here are some estimates, the first figure being for 1942, the second 1941 actual: California Packing $3.45 and $4.91; Corn Products $3.10 and $3.38; Cream of Wheat $1.45 and $1.76; General Foods $2.25 and $2.57; Penick & Ford $4.25 and $4.33; Quaker Oats $3.12 and $4.28; Standard Brands $0.50 and $0.54; United Fruit $4.75 and $5.28.

The *diary industry* with a 14% gain in output over 1941 probably fared about as well as any of the food groups in 1942. Borden's earnings are expected to show an increase, though National Dairy and Beatrice Creamery may decline moderately. Late in the year the Government began to "freeze" warehouse butter, and order a large percentage of milk set aside for shipment abroad in powdered or other condensed form, etc., and these various restrictions may be more heavily felt by the industry in 1943. Secretary Wickard's optimistic statement in his annual report, that the number of milk cows is still increasing has been sharply challenged in Congress, where some members claim that the "slaughter has been wicked" and that "there is no incentive to raise calves when the farmer can't get help." Hence the outlook for the dairy industry seems somewhat clouded in the coming year, though the industry will continue to operate at capacity. Loss of much



Bond Bread

profitable ice cream and cheese business may cut into profits somewhat.

The baking companies were one of the most prosperous segments of the food industry last year, despite lower profit margins on bread. Price ceilings were probably less rigidly applied on cakes and other "luxury" products than on bread and with the normally good profit margins on these products, companies in munitions centers like Detroit were able to take advantage of increased consuming power to step up "luxury" sales. Moreover, bread sales were probably increased in some sections due to sugar rationing, which curtailed home baking.

While bakers have been somewhat handicapped by shortages of sugar, cocoa and shortening, they were able last year to get around these difficulties by use of substitutes and changes in formula—but now the substitutes are also harder to obtain. On January 4th the cost of flour increased 10% and as the administration frowned on an increase in bread prices (unchanged since mid-1941) bakers were asked to try other devices to reduce costs, such as eliminating slicing, fancy wrappings and return of stale bread. There is some doubt whether these changes will suffice to take care of increased costs.

The baking stocks, according to current estimates for 1942, are expected to show larger earnings than in 1941 with one or two exceptions as follows: Continental Baking 1.00 against .07; General Baking .95 against .31; Loose Wiles 2.75 against 1.98; National Biscuit 1.30 against 1.43; Purity 2.25 against 1.85; United Biscuit 2.25 against 1.88.

The *flour milling* and cereal companies probably did not fare as well; Best Food's earnings are running behind last year.

The outlook for the Cuban sugar industry is not very clear at this time. Higher prices were obtained in 1942 under agreement with the United States, but considerable stocks of sugar and molasses remained in Cuba because of transport difficulties. The outlook for these companies in 1943 depends on the current Cuban-U. S. crop negotiations, which thus far have not apparently taken account of rising costs and probable lower volume.

Domestic beet sugar producers, citing heavier labor costs and seeking better profit margins, have been assured of the continuance of a subsidy on the 1943 beet crop (when the nation became involved in World War II, the sugar industry was operating under a control plan six years old; the sugar act of 1937 was extended for (*Please turn to page* 502)

Position Leading Food Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Amer. Crystal Sugar..	42.74	5.49	1.97	2.17Mr	2.98Mr	1.13	2.50	B	C	Large beet crop aiding current operations, but taxes, rationing and zoning regulations may affect later activities. Stability in sugar demand aids long-term outlook. No change seen in $0.50 quarterly common dividend.
Amer. Sugar Refining..	122.51	(a)	d0.52	1.71	1.50E	1.31	2.00	B	C	Decreased receipts of raw sugar and restrictions on deliveries have affected operations. Strong trade position should assure normal quota of post-war business. Common dividends should continue at irregular intervals.
*Beatrice Creamery......	35.74	1.57	2.10	3.18Fe	3.70Fe	1.25	2.00	C	B	Demand for all items continues heavy. Price situation satisfactory. Usual stability will probably feature peace time earnings. Finances strong, and $2.00 common dividend basis should be maintained.
*Beechnut Packing	47.29	34.46	5.97	6.19	4.50E	5.81	5.25	C	A	Raw materials shortages may have some effect on current operations. Popularity of products provides excellent long-term prospects. Earnings and dividend record impressive. Finances strong.
*Borden	25.20	9.10	1.64	1.88	1.75E	1.50	1.40	C	B	Overall sales gains may be extended this year. Trade position strong, and earnings record has been consistently good. These should be maintained in post-war era. Usual $1.40 dividend expected in 1943.
California Packing Co.	45.62	8.39	1.90	2.64Fe	3.88Fe	*1.19	1.50	C	C	Heavy demand and larger food packs should sustain near-term sales. Wide variations in size of packs, with their effects on sales prices seen as causing irregular peace-time profits. $1.50 common dividend should be maintained.
Cent. Aguirre Assoc...	24.88	12.16	2.89	2.04Jl	2.48Jl	2.13	§2.12½	C	D	Somewhat smaller cane sugar crop indicated for 1943. Moderate profit drop expected for current fiscal year. Eventual enforcement of Puerto Rico land limitation law (500-acre holding limit) is adverse long-term factor. Fairly liberal 1943 dividend policy probable.
Cont'l Baking "A"......	2.08	(a)	2.94	0.07	1.00E	None	None	D	D	Further moderate improvement probable for near future. However, company encounters sharp competition in all lines. Common dividend payments will continue conservative.
*Corn Products Refin'g	28.87	7.42	3.22	3.38	3.10E	3.19	2.90	B	B	Company is leading factor in its field. Peace will revive important foreign business. Finances are strong. Earnings and dividend record commendable. $2.60 common dividend rate should easily be maintained.
Cream of Wheat..........	5.99	4.75	2.06	1.76	1.45E	2.06	1.60	C	C	Current sales outlook good, but one-product nature of business detracts from long-term growth prospects. Meanwhile, $1.50 common dividend rate will probably be continued.
Fajardo Sugar	43.48	19.90	4.69	3.34Jl	4.93Jl	2.63	2.00	C	D	Fertilizer shortage may reduce 1943 crop. Puerto Rico land limitation law is unfavorable long-time factor. As finances are strong, liberal dividend policies should be maintained this year.
Francisco Sugar	(b)	(a)	0.08	0.65Je	2.64Je	None	None	C	D	Lower U. S. purchases of 1943 Cuban sugar crop expected. Post-war earnings will probably continue highly erratic. Working capital and sinking fund needs seen as bar to initiating of dividends.
General Baking	9.86	(a)	0.87	0.31	0.95E	0.84	0.45	C	C	Although competition in principal product, bread, is keen, retention of some of recent trade gains is anticipated. Finances are adequate, and restored $0.60 common dividend rate should be continued in 1943.

Position Leading Food Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Divi-dends Paid	War Rating	Peace Rating	COMMENT
*General Foods	13.67	6.42	2.43	2.57	2.25E	2.13	1.70	C	A	Trend toward packaged and frozen foods is sanguine longtime factor. Output and markets well-diversified. Company enjoys excellent earnings and dividend record. $0.40 quarterly rate on common should be maintained.
*General Mills	50.94	15.69	4.93	6.23My	6.06My	3.13	4.00	C	A	Company is foremost American flour miller. Also sells large volume of specialty packaged products. Finances are excellent. Continued steady sales growth anticipated for post-war years. Regular $4.00 common dividend expected.
Great West'n Sugar	20.41	8.84	2.64	1.38Fe	2.35Fe	2.88	2.00	B	C	Largest American beet sugar maker. Continued large war-time demand seen, but revived cane sugar competition will be met in future years. Finances are strong, and usual $2.00 common dividend is anticipated.
Guantanamo Sugar	(b)	(a)	d0.21	0.38Se	1.51Se	None	None	C	D	Prospective smaller sugar crops and probably lower U. S. purchases of 1943 Cuban sugar output make for drop in fiscal year earnings. Past record poor. Restoration of common dividends, last paid in 1921, unlikely.
Hershey Chocolate	9.26	17.35	3.61	6.82	5.00E	3.15	3.00	C	B	Commodity restrictions and higher taxes expected to affect near-term results. Company should retain its dominant position in future years. No change in $3.00 common dividend in prospect.
Libbey, McN. & Libbey	10.02	4.69	0.39	0.73Fe	0.93Fe	0.60	0.45	C	D	Overall war sales should hold up. Despite diversified output, restoration of sharp competition will probably occur in peace years. Earnings record unimpressive. Small dividend possible in 1943.
Life Savers	11.56	8.95	2.80	3.00	2.50E	2.48	2.00	C	C	Aggressive sales policies feature activities. Company is leader in its field. Commodities restrictions not serious handicap. Earnings record excellent. Peace prospects encouraging. Finances strong, and usual liberal dividend policy anticipated.
Loose-Wiles	29.13	6.39	1.59	1.98	2.75E	1.41	1.25	C	C	Demand continues high. Price situation satisfactory. Trade situation good, but competition in the industry may restrict post-war growth to moderate proportions. Dividends will probably be continued on prevailing $0.25 quarterly basis.
*National Biscuit	13.29	1.47	1.68	1.43	1.30E	1.65	1.40	C	C	Continued expanded war-time sales expected. Company foremost cracker maker. Competitive situation suggests peace-time earnings will remain within pre-war circumscribed limits. Maintenance of $0.30 quarterly common dividend probable.
*National Dairy Prod.	17.47	(a)	1.80	1.97	1.90E	1.13	0.80	C	B	Government and civilian demand holding sales at high levels, leading position in dairy trades should assure continued stability in peace-time profits. Financial position is sound. No alteration in $0.80 dividend indicated.
Nat'l Sugar Refining	35.16	10.59	0.19	2.51	NE	1.63	None	D	D	Operations curtailed by inability to obtain adequate raw sugar supplies. 1943 earnings outlook unimpressive. Competition in cane and beet sugar divisions seen as affecting long-term prospects. Irregular dividends probable.
Penick & Ford	28.15	16.12	2.83	4.33	4.25E	3.06	3.00	B	B	Company prominent in corn products industry. Output in heavy demand for food, military and industrial use. Post-war prospects optimistic. Strong finances an aid to extension of liberal dividend policies.
Pet Milk	31.72	2.95	2.04	3.39	2.90E	1.13	1.00	C	B	Sales at record levels, with military outlets important. Current earnings should be well maintained. Heavy post-war domestic and foreign demand expected. Finances strong. Usual $1.00 common dividend anticipated.
Pillsbury Flour	41.08	16.72	1.85	1.48My	1.89My	1.60	1.25	C	B	Taxes may depress fiscal year results. Second rank in flour milling industry should provide full quota of post-war business. Financial position is sound. Regular $1.00 dividend, plus extras, probable for 1943.
Purity Bakeries	23.23	(a)	1.29	1.85	2.25E	1.03	1.55	C	C	War-time profits will probably hold at advanced levels, but return to only moderate earnings is anticipated after the war. Competition especially keen in bread division. Finances are strong, and fairly liberal dividend policy is expected.
Quaker Oats	42.01	10.72	6.15	4.28De	4.64Je	5.75	4.00	C	B	Fiscal year now ends in June. Company's prominent trade position should help maintain commendable earnings record of past years. Cash position very strong, and usual $4.00 common dividend should be continued.
So. Porto Rico Sugar.	30.83	10.84	2.28	d0.27Se	4.89Se	2.14	3.75	C	D	Expected lower 1943 crops will affect fiscal year earnings, though profitable results anticipated. Puerto Rico land law has unfavorable long-term implications. Meanwhile, dividends in varying amounts are probable.
Standard Brands	3.93	1.72	0.74	0.54	0.50E	0.74	0.10	C	C	New products helping to offset loss in other departments. Long-term sales outlook is favorable, and new management is expected to make progress in improving earning power. Further small dividend possible this year.
United Biscuit	28.79	(a)	2.15	1.88	2.25E	1.34	1.00	C	C	Current sales benefiting by large Government and civilian demand. Trade position sound, and usual stability expected to feature peace-time earnings. No change in $1.00 common dividend foreseen.

§—Plus stock divids. Fe—Year ended February. Mr.—Year ended March. My—Year ends May. Je—Year ends June. Jl—Year ends July. Se—Year ends Sept. E—Estimated. NE—No estimate. (a)—None available, because of excessive senior capitalization. (b) None available for common. d—Deficit. *—Recommended for safe income. *—Recommended for income and appreciation. A—High Grade. B—Good. C—Fair. D—Marginal.

Further Tobacco Sales Gains For 1943

Profit Reduction Likely

THE few 1942 annual reports which have been published suggest that taxes, rather than costs and other operating expenses, were principally responsible for the decline in last year's tobacco company profits. Total income of Liggett & Myers Tobacco Co., for example, was 7% higher than in the preceding year. On the other hand, Federal taxes rose 37%, and net dropped to $4.56 per share of common from $5.22 in 1941. In the case of R. J. Reynolds Tobacco Co., total income was nearly 5% higher, but Federal taxes advanced over 29%. Net profits receded to $1.98 per share from $2.32 in 1941. It is probable that parallel situations will also be disclosed by other tobacco company reports subsequently to be released. Total income includes net sales plus other income, minus all operating expenses, but before depreciation, obsolescence, etc.

The wide diffusion of public spending power suggests that even higher sales levels will be attained in practically all tobacco divisions during 1943. The record production of nearly 236 billion cigarettes in 1942 (excluding those for export or for the armed forces) will probably be surpassed this year. Cigarette production in 1941 was approximately 206.4 billions. The price increases allowed on cigars, ranging from 20% to 25%, are not expected to retard overall sales progress during 1943. Export demand for American cigars will also help maintain total cigar sales at high levels this year. Cigar production crossed the 6 billion figure in 1942 for the first time since 1929, when 6.5 billion cigars were manufactured.

In the smoking and chewing tobacco division, the outlook is less favorable. Combined production has declined consistently during the past quarter century, amounting to but 280.5 million pounds last year, compared with 298.7 million pounds in 1941. The constant decline in these products is attributed chiefly to the increasing popularity of cigarettes.

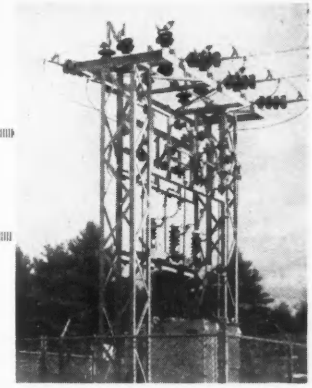
With greater pros- (*Please turn to page* 500)

Position of Leading Tobaccos

Company	Book Value Per Share	Net Quick Assets Per Share	1936-39 Average Net Per Share	1941 Net Per Share	1942 Net Per Share	1936-39 Average Dividends	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
*American Snuff	33.23	29.20	3.20	2.64	E2.50	3.25	2.80	C	A	Perennial stability of snuff demand features company's operations. Higher taxes and leaf costs should not affect future profits in important degree. Strong finances are aid to traditional liberal dividend policy.
*American Tobacco "B"	36.70	(a)	4.69	4.58	E3.75	5.00	3.25	C	B	Despite larger cigarette sales, higher leaf costs and taxes will retard intermediate profit progress. Dominating trade position should be retained in future years. No alteration seen in current $0.75 quarterly dividend.
Bayuk Cigars, Inc.	31.81	24.50	3.40	3.91	E2.85	1.14	1.50	C	C	Increasing labor and leaf costs may prevent reversal of recent downtrend in earnings, at least over near future. Long-term cigar sales prospects are satisfactory. No dividend change expected.
Consolidated Cigars	25.98	(a)	0.79	3.43	E2.25	0.37	1.50	C	C	Thorough mechanization of manufacturing processes will sustain profit margins in future, though competition will remain keen. Usual $1.50 dividend expected in 1943.
*Helme, G. W.	42.75	56.00	6.16	5.06	E4.70	7.97	4.75	C	A	Improved consumer incomes in South favor continuance of long-time stability in snuff sales. Strong finances make possible the maintenance of dividends on common at $1.25 quarterly rate now prevailing.
Liggett & Myers "B"	41.68	(a)	6.45	5.22	4.56	5.75	3.50	C	B	Company should hold its strong sales position, despite keen competition in cigarette division. Higher taxes and leaf prices will affect near-term earnings. 1943 dividends may equal last year's payments.
Lorillard, P.	18.47	(a)	1.46	1.44	E1.20	1.45	1.20	C	C	Aggressive promotion of "Old Gold" cigarettes should aid over-all 1943 volume. Well-diversified output favors long-time earnings stability. Common dividends may equal 1942 total.
Philip Morris	32.58	28.07	7.77	8.14mr	8.01mr	4.19	5.00	C	B	Continuing sales growth is anticipated over next few years, although costs and taxes may restrict profit expansion. Finances are strong. Restoration of former $5.00 annual basis for common is possible in 1943.
Reynolds Tob. "B"	14.83	13.89	2.65	2.32	1.98	2.80	1.55	C	B	Enhanced sales in cigarette and manufactured tobacco divisions are forecast for future years, but earnings recovery may be retarded by leaf-cost and tax factors. $0.35 quarterly rate on common should be maintained.
*U. S. Tobacco	11.43	10.84	1.75	1.58	E1.30	1.55	1.32	C	A	Company is country's largest producer of snuff, in which wide geographical distribution is enjoyed. Working capital position is strong, indicating continuance of customary liberal dividend policy.
*Univer. Leaf Tobacco	52.21	(a)	5.69	6.59je	6.15je	4.81	5.00	C	B	Higher leaf tobacco prices are aid to near-term sales prospects. Commission business is also lucrative. Peace should aid normally large foreign sales. $1.00 quarterly basis should be maintained.

(a)—Senior capitalization exceeds quick assets for common. E—Estimated. mr—Year ended March. je—Year ended June. A—High grade. B—Good. C—Fair. *—Recommended for safe income. *—Recommended for income and appreciation.

The Outlook For Utilities



General Electric

Earnings Will Be Close to Last Year's Unless Taxes Are Further Raised

The utility companies passed through a particularly difficult year in 1942, but emerged with flying colors. Despite dire predictions of power shortages by the Federal Power Commission, the industry was able to handle practically all war demands, with only a few local and minor restrictions of service to the civilian economy. This was despite a cut in the expansion program, due to priorities. The original budget of $622,000,000 (slightly larger than that of 1941) had to be cut down to $482,000,000. Present plans for 1943 call for an expenditure of only about $256,000,000. All these figures are for the private companies—the Federal Government hydro projects were also curtailed considerably by WPB orders.

While setting new records in power production—1942 output was approximately double that of 1929 and nearly 5 times as large as in 1921—the utilities did not fare so well financially. Squeezed by steadily declining rates, larger depreciation allowances, and bigger taxes, the industry has been "doing more and more for less and less." Utility stockholders of the 1920's anticipated the present huge growth and have not been disappointed—but they did not anticipate the sharp and continued reduction in profit margins. In 1929 the common stockholder could claim about 25¢ out of every dollar of gross revenue. Complete figures are not available for 1942 but in that year he probably had a claim on only about 13¢. Moreover, the proportion of these claims paid out in dividends was probably smaller in 1942 than in 1929.

To take a concrete example, Consolidated Edison, the largest and one of the most conservative operating companies, earned only about one-third as much on its common stock last year as in 1929—and less than half as much as in the bad depression year 1932—although revenues were about 18% higher and the gain in physical output still greater.

While electric output in 1942 was up about 12%, the increase was largely in low rate industrial business so that gross revenues for the industry topped 1941 by only about 8%. The imposition of heavier Federal Taxes cut net income about 10% and after deducting preferred dividends, the portion left for common stockholders dipped nearly 15%, it is estimated.

In 1929 high-grade utility operating company stocks sold at a very high multiple of earnings, as did the chemical stocks, because of anticipated growth of the business. What investors did not foresee was the New Deal, which had it "in" for the utilities, while the chemical industry was let alone. The business of both industries grew rapidly, but due to the squeezing of profits investors will now pay only 5-15 times share earnings for utilities while they are still willing to pay 15-25 times earnings for the chemical stocks. Thus a holder of utility operating company stocks has been hurt by (1) the "squeezing" of profits due to regulation, (2) by taxes, and (3) by the reduced popularity of this class of stock.

Utility Investor Problems

The man who held holding company utility stocks was penalized also by three other factors—capital leverage, reduction or elimination of dividend income due to SEC orders, and fear that all equity might be wiped out by the "death sentences" as enforced by the SEC.

Early in 1942 Mr. Morgenthau greatly alarmed utility stockholders by proposing a 55% normal income tax—a jump of 78% over the previous tax. In four months utility operating stocks dropped 14%, holding company stocks 20%—much more in low-priced issues. However, the final tax bill was more lenient, raising normal taxes only about 29% (though companies with excess profits taxes were harder hit) and special tax concessions were made to the industry. The fact that the year's net decline in prices was somewhat less than the reduction in net earnings was apparently due to increased hopes of a political "turn to the right" based on the November election results.

Thus far in 1943 the utility stocks have continued to advance along with the general market, present prices being about 10% higher than at the year-end. Some of the low-priced "dogs" have doubled since the December tax-selling period. There is general hope that Congress will not increase corporation levies very greatly this year—a 45% normal tax seems to be about the worst expectation. There is talk in

Congress of "forced loans" to the Government by corporations to the extent of 5% or 10% of gross, but since these would not be called taxes they would presumably not be deducted from earnings (though they might curtail dividend payments in some cases). The utility industry would be in fairly good shape to stand such forced loans because most companies are in pretty good cash position, and they won't have to spend so much this year on new constructions. Companies which might have some difficulty could doubtless swing a temporary bank loan to take care of the Government's cash levy.

It seems unlikely that the hard-won tax concessions obtained by the utilities last year—they are too technical to describe here—will be lost this year, since the new Congress has "moved to the right" in its political philosophy and presumably Mr. Morgenthau's demands will be tempered somewhat to the new set-up. However, holders of utility stocks must still keep a close eye on the political weather vane at Washington, for taxes remain the principal variable in utility earnings.

So far as 1943 operating results can be forecast, there should be some further gain in kilowatts and revenues since new war factories are still being brought into productive activity. However, the war construction program is now largely completed, it is understood, and 1943 should be largely a period of evening-up and readjustment. Neglected areas such as New York City may gain in activity as war orders are shunted their way.

Electric output for the week ended January 16th was 14.5% over last year but the biggest gains were on the Pacific Coast, while the New England and Mid-Atlantic states were only about 5% over last year. Gains later in the year seemed likely to taper off somewhat so that the net increase for the year as a whole—so far as it is possible to forecast—seems likely to work out around 10 or 12%, with a smaller gain in revenues (in other words, about the same increases as in 1942). Fuel costs are going to be higher this year, particularly for those utilities using fuel oil, but on the other hand the supply of hydro power should (*Please turn to page* 502)

Position of Leading Utility Stocks

Company	Book Value Per Share	1936-39 Average Net Per Share	1941 Net Per Share	1942 Net Per Share (E)	1936-39 Average Dividends	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
*American Gas & Elec.	23.45	1.96	2.72	2.15	1.69	1.70	C	B	Possible changes under Holding Company Act may be moderate, as interconnected properties of system provide over 75% of consolidated revenues. Continuation of excellent earnings record anticipated. $0.40 quarterly rate on common should be maintained.
American Light & Trac.....	38.66	1.60	1.85	1.80	1.26	1.20	C	F	Liquidation under Holding Company Act is proposed, probably by sale of sufficient assets to retire preferred stock, with distribution of balance of assets to common holders.
American Power & Light..	3.90	0.30	d0.02	0.10	None	None	D	F	SEC has ordered liquidation of company under Holding Company Act by August, 1943, but extension may be granted. Company is contesting order. Earnings record poor over past decade. No dividends on common since 1932.
*American Tel. & Tel.	127.08	9.10	10.26	p8.62	9.00	9.00	C	A	Higher costs, taxes, and scarcities of materials for new equipment will check near-term profit progress. Dominant communications position, technological progress and able management assure post-war growth. Cut in dividend this year is still a possibility.
American Water Works....	11.93	1.05	1.11	0.70	None	None	D	C	Increasing electrification of regions served is favorable long-term factor. Electricity furnishes about two-thirds of revenues. Higher costs and taxes will retard near-term earnings. Early resumption of common dividends is unlikely.
Brooklyn Union Gas	57.69	2.56	2.08	1.70	1.55	0.50	C	C	Large population served appears to assure continuing stability of earnings. Dividends will probably be restricted by need to provide for 1945 bond maturity of $14,700,000, with $6,000,000 debt coming due in 1947.
Columbia Gas & Elec.	11.54	0.46	0.33	0.08	0.21	None	D	C	Access to Mid-Continent supplies seen as aid to long-time natural gas revenue growth. Debt retirement program continuing. Lower 1942 earnings suggest no early resumption of dividends on common.
*Commonwealth Edison	23.32	2.16	2.10	1.80	3.09	1.60	C	B	This Chicago company occupies strong fundamental position. Rate situation believed satisfactory. Industrial and population growth favors long-time prospects. Finances are strong. Present $1.40 dividend rate should be maintained.
Commonwealth & South....	4.17	0.12	0.09	0.05	None	None	D	F	SEC orders recapitalization on a one-stock basis. Restriction of operating scope anticipated. Outlook for present common stock dubious.
*Consol. Edison of N. Y.....	46.12	2.20	2.00	1.50	1.93	1.60	C	C	"Dim-out" revenue loss believed nearly offset by increased steam sales. Proposed St. Lawrence river power project, if completed, might have long-time effect on company's rates. Meanwhile, $1.60 common dividend will probably be continued.
*Consol. Gas, Baltimore......	45.35	4.54	4.64	4.50	3.60	3.60	C	B	War industries stimulating output. Fundamental position is strong, and revenue sorces are well-diversified. Post-war outlook excellent, and 13-year $3.60 common dividend will probably be maintained.
Electric Bond & Share	77.85	0.25	0.24	d0.40	None	None	D	F	Eventual liquidation of company, under Holding Company Act, is likely. Realization of values for common holders, after provision for two preferred issues, is uncertain.

Position of Leading Utility Stocks

Company	Book Value Per Share	1936-39 Average Net Per Share	1941 Net Per Share	1942 Net Per Share (E)	1936-39 Average Dividends	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Electric Power & Light....	11.78	0.28	0.67	1.00	None	None	D	F	Dissolution by August, 1943, ordered by SEC. Company has sought judicial review of order. Extent of possible liquidating value for common is uncertain. First preferred dividends have been omitted.
Federal Light & Traction..	22.51	y2.38	1.58	1.25	0.56	1.75	C	C	Realignment of properties under Holding Company Act is anticipated. Nevertheless, long-term outlook for system seems encouraging. Further liberal distributions on common possible during 1943.
International Tel. & Tel...	33.61	0.94	0.004	0.20	None	None	D	C	Company has obtained Export-Import credit of $25,-000,000 to assist in debt retirement. Restoration of peace will aid foreign operations, particularly in Europe. No early resumption of dividends indicated.
Lone Star Gas....................	15.09	1.00	1.05	0.80	0.62	0.60x	C	C	Rate problems have evidently been cleared up. Integration activities are continuing. Population and industrial growth in regions served aids long-time prospects. Liberal dividend policy will probably be maintained.
Long Island Lighting	1.69	d0.03	d0.08	d0.30	None	None	D	D	Revenues largely from residential sources. Heavy interest charges have helped preclude earnings on common for past six years. Little improvement in this regard seen for early future.
Louisville Gas & El. "A"	k13.68	2.42	2.03	1.80	1.40	1.50	C	B	Earnings and dividend record consistently good. Some competition from TVA may be met in post-war period. However, rate situation is satisfactory, and basic position is sound. Continued regular "A" dividend indicated.
National Power & Light....	16.91	1.19	1.03	0.50	0.60	None	D	F	Company in process of dissolution. Pending clarification of problems in connection with exchanges of various operating units, status of common, after provision for preferred, is uncertain.
Niagara-Hudson Power	13.08	0.42	0.66	0.40	(I)0.13	None	D	F	Under terms of corporate simplification and dissolution plan, preferred shareholders will receive larger portion of distributed assets. Outlook for common holders in this respect is not encouraging.
North American Co.	16.82	1.64	1.92	1.90	....	wStock	C	B	Federal Court upholds SEC order for company to dispose of all properties except in St. Louis area. Cash income being used to cut debt. Relative operating status appears satisfactory. Meanwhile, some decrease in common dividends (paid in stock) is possible.
*Pacific Gas & Electric......	31.81	2.65	2.31	2.15	1.88	2.00	C	B	California gas rates recently reduced. Benefits of long-term secular growth in sales may be offset by strict California rate regulation. However, earnings record is good and finances are satisfactory. No change in $2.00 common dividend foreseen.
*Pacific Lighting	25.59	3.94	3.35	3.60	3.07	3.00	C	B	Long-term revenue growth prospects are favorable, but strict California rate regulation may retard comparable net income rise. Finances are sound, and $3.00 dividend on common should be maintained.
Peoples Gas L. & C.	82.51	3.49	6.53	5.60	1.88	4.00	C	C	Substantial retroactive gas rate reductions ordered by Illinois Commerce Commission. Cuts are estimated at equal to $0.50 per share of common. Finances are strong, however, and no change in $4.00 common dividend is expected.
Public Service of N. J.....	25.32	2.15	2.02	1.40	2.48	0.95	C	C	Prospective heavier taxes and possibility of rate cuts seen as offsetting advantage of long-time growth in territories served. Meanwhile, reduced $0.25 quarterly dividend on common should be maintained.
Southern Cal. Edison	19.76	2.30	2.42	1.70	1.66	1.75	C	B	Heavier Federal taxes affect near-term earnings outlook. Long-time growth prospects are good, though strict rate regulation may retard profit progress. Present $1.50 common dividend basis may be continued.
Standard Gas & Elec.	None	d1.48	d1.52	d0.70	None	None	D	D	Company's integration plan provides for eventual restriction of interests to properties in Pittsburgh area. Little change for better seen in 10-year record of deficits on the common.
United Gas Corp.	None	d0.61	d0.37	d0.10	None	None	D	D	Large arrears on two preferred issues, and company's integration problems, suggest corporate recapitalization. No break in five-year record of deficits on common in early prospect.
United Gas Improvem't....	10.93	1.04	0.77	0.55	1.00	0.45	C	C	Under system liquidation plan, common stock would receive various assets estimated to equal about $8 per share. These assets include valuable operating utility properties.
Washington Gas Light	35.78	2.89	2.24	1.60	2.17	1.50	C	B	Permanent increase in population of nation's capital, as sequel to war factors, seen as extending the long-time record of earnings and dividend stability. No change indicated in $1.50 dividend on common.
Western Union	179.42	2.46	7.05	9.00	1.06	2.00	B	C	High earnings foreseen for duration. Long-term prospects less encouraging, because of potential increase in competition from air mail, telephone, radiograms, etc. No near-term alteration expected in $0.50 quarterly dividend basis.

d—Deficit. p—Preliminary. E—Estimated. I—Represents 3 years starting with initial dividend 12/15/37. k—Represents combined common shares. y—Fiscal years in this period ended Sept. 30. w—Total 4 shares of Detroit Edison for each 50 shares held. x—Plus 1 share Northern Natural Gas Co., for each 18 shares held. *—Recommended for safe income. *—Recommended for income and appreciation. A—High Grade. B—Good. C—Fair. D—Marginal. F—Dissolution factors make peace rating impracticable.

Movies Face Another Prosperous Year

Present Film Stocks Large, Aiding Exhibitors' Positions

Aided by a fortunate combination of circumstances, conspicuous among which were enhanced public spending power, release of funds held in Great Britain, restrictions on the use of private motor cars, and the great success attending the exhibit of certain feature releases, the motion picture industry last year enjoyed the largest measure of prosperity in over a decade. While figures are not complete, it is estimated that nationwide attendance in 1942 exceeded 100 millions weekly, compared with a weekly average of 82 millions in 1941.

Another year of highly profitable operations is in prospect for leading factors in the movie trades this year, this notwithstanding handicaps imposed by higher costs, material shortages, and the loss to the armed services of leading actors and cameramen, numerous technicians and other expert workers. In view of the fact that the material from which films are manufactured—nitrocellulose—is also an essential ingredient in the production of gunpowder, the question of supplies is of paramount importance to the industry. Under peacetime conditions, the industry consumes about 50% of the annual output of this basic nitrocellulose. Military requirements for this vital material have resulted in a 25% curtailment of supplies for film purposes, but it is unlikely that this restriction will seriously interfere with operations during 1943, unless it be further extended. Resultant cut in number of prints will mean longer runs for pictures. However, the trend has been in that direction for many months.

Production cuts will have comparatively little effect on exhibit of pictures, because of the record inventory of unreleased pictures, estimated in excess of 160 feature films. Shortages of manpower and limitation on other essential materials will have a progressively greater (*Please turn to page* 000)

Position of Leading Motion Picture Stocks

Company	Book Value Per Share	Net Quick Assets Per Share	1936-39 Average Net Per Share	1941 Net Per Share	1942 Net Per Share	1936-39 Average Dividends	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Columbia Pictures	23.89	18.03	1.90	0.95je	3.84je	0.75(a)	0.50	C	C	Company is producer only. Near term sales prospects good, though loss of important actors, as well handicaps imposed by film allocations, will affect later operations. Longer term prospects are satisfactory. Recent cash dividends will probably be maintained.
Consol. Film Ind.	26.57	(c)	d0.20	d0.55	Ed0.60	None	None	D	D	Record of this film processor is unimpressive. Shortages of materials seen as further bar to progress, during remainder of war. Little in post-war outlook to warrant optimistic attitude. Common dividends remote.
*Loew's, Inc.	60.93	13.13	6.42	6.15ag	7.02ag	4.25	3.50	B	B	Numerous film successes have been reflected in recent annual earnings gains. Release of British-held funds has aided finances. Continued excellent profit levels anticipated. Post-war prospects sanguine. Dividend payments may be maintained on a fairly liberal basis.
*Paramount	19.21	(c)	1.08	2.97	E3.00	0.04	1.05	B	B	Competitive position has been greatly improved. Film scarcities will probably have little near-term effect on operations. With volume prospects encouraging for post-war period, economies effected in reorganization will aid maintenance of common dividends.
Radio-Keith Orpheum	6.23	(c)	(b)	d0.08	NE	None	None	D	D	Despite improved theatre attendance, this reorganized company has yet to prove its ability to show earnings for the common stock, on which dividends seem very remote.
Technicolor	11.18	3.87	0.89	1.05	E1.00	0.81	0.25	C	C	Control of most popular process for movies in color is a favorable long term factor, although film shortages and loss of technicians to armed forces will effect 1943 operations. Conservative dividend policy indicated.
†20th Century Fox	12.38	(c)	3.15	2.04	E4.50	1.88	1.25	C	C	Earnings record in recent years has been erratic. Release of British-held profits has helped financial status. Competitive position in production field has improved. This should aid peace time revenues. 1943 dividends on common may equal last year's payments.
†Warner Brothers	22.24	(a)	0.75	1.36ag	2.21ag	None	None	C	C	Revenues from various activities will probably continue to expand. Although peace time profit prospects are satisfactory, large arrears on preferred stock make payments on common shares unlikely.

(a)—Plus stock divid. (b)—Not feasible due to reorganization. (c)—Senior capitalization exceeds quick assets for common. d—Deficit E—Estimated. NE—Not estimated. je—Year ends June. ag—Year ends August. B—Good. C—Fair. D—Marginal. *—Recommended for income and appreciation. †—Recommended for appreciation.

Introducing to You—

Leaders of American Industry

THE only publicity seeker identified with The Borden Company is Elsie, most famous of cows. Millions of people are Elsie fans. A goodly percentage of these, and many others, buy Borden products to the tune of $250,000,000 a year or more—fluid milk, cheeses, powdered milk, confectionery, ice cream, vitamin products, canned fish, and so on. As compared both to Elsie and the familiar Borden products, Borden's chief executive officer—Theodore G. Montague—is practically unknown to the public.

However, if you don't know Ted Montague it's your loss. He meets well, speaks well, wears well. The 85-year old Borden Company's slogan is: "If It's Borden's—It's *Got* to Be Good!" That applies to the executives as well as to the products. A man doesn't get to the top with Borden by chance—or inheritance. Mr. Montague became president of Borden at the age of 39, one of the youngest top officers in the annals of Big Business. He is only 44 now. Here is his "bio." in brief:

Born, LaCrosse, Wis.; high school; University of Wisconsin; left university after three years to enter Naval aviation in First World War; after war got job with Valecia Evaporated Milk Co., in Wisconsin in 1919; made president this company in 1923; company absorbed by Pet Milk Co. in 1926; following year he and associates bought Kennedy Dairy Co., of Madison; Borden took that in in 1928, also took Montague; to New York in 1934 as general manager of Borden's fluid milk division; elected vice-president in 1935; elevated to president in 1937, succeeding the late Arthur W. Milburn.

No. 1 interest: a wife and three children. At short and infrequent intervals, a golfer, fisher and hunter. Active in the Red Cross and the Boys Clubs of America. Director of the National Association of Manufacturers, director of American Sugar Refining Co., trustee of the Bank of New York.

★ ★ ★

THERE is no corporate relationship between Willys-Overland Motors and the Chrysler Corporation, but in executive leadership their histories have been to an interesting extent intertwined. Early in the '20's the late Walter P. Chrysler did a rehabilitation job on Willys to pull some banking chestnuts out of the fire, leaving shortly thereafter to make industrial history by building the old Maxwell Motors into the giant Chrysler. Joseph W. Frazer, the hard-hitting subject of this brief sketch, followed Chrysler's steps in reverse. With Maxwell when Chrysler took over, he became a vice-president and general sales man-manager of Chrysler Corporation, leaving in 1939 to become president of Willys-Overland.

Mr. Frazer belongs to that considerable number of pioneer automobile men who at one time or another have been associated with various motor companies. Born at Nashville, Tenn., he went from the Sheffield Scientific School of Yale in 1912 to a job with Packard, first as a mechanic, later as a salesman in this company's New York City branch. From that he became a partner with his brother in an automobile agency in Nashville. After the end of the First World War he joined up with the General Motors Export Corporation, thence to the General Motors Acceptance Corporation, thence to G. M.'s Chevrolet Motor Company, thence to Pierce-Arrow Finance Corporation, next to Maxwell and from there as above told.

Experience in virtually every aspect of the automobile business from manufacture to retail sale is one thing Mr. Frazer has plenty of. Out of this experience he got the idea that there was a big potential market for lower-cost, lower-weight cars than anybody in the industry was successfully producing. He was making good progress in getting a redesigned Willys-Overland car established for such a market when World War II broke out. Within a very few months after Pearl Harbor he had the company's facilities converted 100 per cent to war work; and in the twelve months ended last Sept. 30 delivered over $105,000,000 worth of war goods.

Mr. Frazer is described as "a 50-year old dynamo." He will lead his company out of the war with an improved "know-how," improved facilities, improved finances; and thus in a position to get on with low-cost, low-weight cars for the public in a post-war era whose abundance of aluminum, magnesium, plastics and plywood will fit in ideally with Mr. Frazer's commercial objectives.

FOR PROFIT AND INCOME

Investors in the Saddle

This is a different kind of a bull market. It is not being engineered by manipulators, nor is it controlled by the whims of in-and-out speculators. It represents the activities of investors. To apply the old ideas of market philosophy is to invite error. These SEC-regulated markets go to extremes on the up-side and on the down-side. They lack the cushions that old speculative practices supplied. There are no vulnerable pyramided accounts to be liquidated from time to time on the way up; and usually there is no big short interest to cover on the way down. So don't expect too many of those "more than 10% reactions" that you hear the old fashioned market letter writers talk about.

Bond Stores, Inc.

An investment house which usually is classed in the street as "smart," has been telling its clients to buy Bond Stores, Inc. The stock, which pays $1.60 per annum, sells around 18½ to yield about 8.6%. Earnings in 1942 are understood to have been between $2.50 and $2.75 a share against $3.96 in 1941, $3.84 in 1940, $3.77 in 1939, $2.34 in 1938 and $2.26 in 1937. The company operates a chain of some 59 men's clothing stores, located principally in larger cities, and manufactures the greater part of its ready-made suits and overcoats at plants in Rochester, New York and New Brunswick, N. J. Of course, the war is not good for the men's clothing business; but the boys will come home some day, and most of them will buy new suits of "civies," just as they did in 1919 and 1920. This makes Bond Stores look like a "peace" stock. Bond Stores is founded on the British idea of the "Twenty Shilling Tailors," and those who are familiar with London shares know that the British counterpart of this NYSE issue has been a good stock to own. Bond's sales volume has increased approximately 400% since 1934.

Tobacco Shares

Just when will all the bad news be out regarding the tobacco shares? At some point along the line good stocks like American Tobacco, Reynolds, Liggett & Myers, Lorillard, U. S. Tobacco and Philip Morris ought to be a buy. Admittedly, there is a possibility of another wave of dividend reductions due to high leaf prices and constant prices for cigarettes; but it is equally true that the industry's sales are breaking all records. Tobacco shares long enjoyed a reputation for regular earnings, dependable dividends and assured growth. The present situation in the industry probably is not enduring. Of course, the only visible reason for buying tobacco stocks now is as a speculation on the OPA's generosity and fairness in permitting higher cigarette prices. Perhaps they can be bought cheaper, but there always is a danger in waiting too long.

This Pratt & Whitney aircraft motor, made by Chevrolet, is protected against rust by a vacuum-sealed pliofilm bag. After all air is pumped out, dehydrating compounds able to absorb a gallon of moisture are included. That's why motors shipped to Africa, Australia, India or anywhere else remain in good shape.

Picking Oil Issues

Among the more careful analysts there is a growing disposition to pick and choose among oil shares. It is felt that the present oil situation is likely to continue, with minor changes, for a year or two. This would seem to mean lower earnings, or no earnings at all, for the Eastern marketers and Eastern marketing divisions of the big oil companies and tough times for those Eastern refineries which usually get their crude supplies by tanker. It also means more low-profit-margin fuel oil and less high-profit-margin gasoline. In the meantime, oil is being taken out of the ground faster than new wells are being drilled and discovered. All this seems to point to the attractiveness of the shares of companies with large crude reserves. Some of these are Continental Oil, Shell Union, Pure Oil, Ohio Oil, Humble Oil, Amerada, Standard Oil of New Jersey, Standard Oil of California, Gulf Oil, Texas Company and Phillips Petroleum. The same school of thought opines that it probably will be hard to lose money in the oil industry supply issues such as National Supply, American Republics, Byron Jackson, Dresser Manufacturing, Reed Roller Bit and issues of their type.

A War Task Nears Completion

It has been the task of the machine tool industry to do the "make ready" for war production. In another six months or so, America's war plant will be reasonably complete — and the machine tool industry will begin to contract. Already it is reported to be seeking non-priority orders. This explains why the machine tool shares are selling to afford such high yields. Some of the old line companies like Brown & Sharp, Bullard, Ex-Cell-O, Simonds Saw & Steel and National Acme probably will continue to do a fair business, but their volume in 1944 won't be as large as in 1942. After the war there is likely to be quite a large supply of used machine tools; just how useful they will be is a matter on which there is a vast difference of opinion. Some of them can be rebuilt, and others will have to be scrapped. The companies which did well in the pre-war years probably will continue to enjoy a good business, but will have to shrink their operations. There are many companies in the field, however, which never amounted to much before the war and probably won't be important factors after it is over. Unquestionably the market is making some mistakes in its individual judgment of machine tool shares, but its overall opinion probably is not inaccurate.

Low Priced Dividend-Payers

(PART I)

	1942 Div.	Est. 1942 Earnings	1941 Earnings	1940 Earnings	Recent Price	Approx. Yield (k)
Allied Stores	$0.60	$2.10(a)	$2.27(a)	$1.57(a)	7	8.5%
Amer. Rad. & S.S.	0.30(f)	0.50	0.73	0.70	7	4.3
American Republics	0.35(f)	1.00	1.03	0.78	7¾	4.5
Beech Aircraft	1.00(f)	6.04(b)	1.18(b)	0.17(b)	9¼	10.7
Best Foods	0.60(d)	0.65(c)	0.31(c)	0.71(c)	10	6.0
Burroughs Add. Mach.	0.60	0.80	0.95	0.63	10¼	5.8
Commercial Solvents	0.60	1.10	0.99	0.91	11¾	5.1
Consolidated Oil	0.50	1.25	1.25	0.28	7½	6.6
Continental Baking	0.50(f)	1.30	0.80	0.27	5	10.0
Continental Motors	0.50(f)	1.82(e)	1.08(e)	0.20(e)	4¾	10.5
Curtiss-Wright	1.00(f)	2.00	3.15	1.81	7½	13.3
Decca Records	1.00	2.00	2.01	1.15	11	9.0
Eagle Picher Lead	0.60	2.50(g)	1.56(g)	1.41(g)	8	7.5
Erie Railroad	1.00	5.00	2.99	0.17	8½	11.7
Gaylord Container	1.00	1.60	1.98	2.04	10½	9.5
General Baking	0.45	0.95	0.31	0.77	6½	6.9
Interst. Dept. Stores	1.00	2.40(a)	3.23(a)	1.28(a)	10	10.0
Jarvis, W. B.	1.20(d)	1.50(c)	1.27(c)	3.17(c)	10½	11.4
Kalamazoo Stove	0.60	1.50	1.61	1.96	13¼	4.5
Libby, McN. & Libby	0.45(f)	0.80(h)	0.93(h)	0.73(h)	5¾	7.8
Mengel Co.	0.25(f)	1.50	2.57	0.64	5½	4.5
Mead Corp.	0.90	1.75	2.66	1.56	7¼	12.4

(a)—Earnings for years ended Jan. 31 of following year. (b)—Years ended Sept. 30. (c)—Years ended June 30 of following year. (d)—Indicated current rate, not 1942 payment. (e)—Years ended Oct. 31. (f)—Dividends paid at irregular intervals. (g)—Years ended Nov. 30. (h)—Years ended Feb. 28 of following year. (k)—Based on payments stated in first column.

Gasoline and Movies

The movie shares have slipped down a bit on fear that strict gasoline rationing may result in lower attendance and therefore in smaller film rentals. The prohibition against so-called pleasure driving, however, applies only to the 17 Eastern States in the "shortage area," and it may be that summer theatre attendance in the larger cities will be stimulated by inability to do Sunday driving. Of course some suburban theatres will suffer. All this, it should be remembered, is a non-recurrent situation; and everyone who follows the stock market knows how ineffective non-recurrent good earnings have been on war share prices—perhaps non-recurrent poorer earnings will be equally ineffective in the case of the movie issues. At any rate, stocks like Paramount Pictures, 20th-Century Fox and Warner Brothers still look attractive.

Typewriter Shortage

Every active civilian office in the country is in need of new office machinery, especially in need of new typewriters. It is impossible to make normal replacements, and many needed machines have been commandeered by the government. We are not making any new typewriters. Most of the machinery and manpower usually devoted to this line of manufacture now are making machine guns and other war equipment; and the typewriter companies are enjoying rather good earnings in spite of conver-

(*Please turn to page* 498)

FIVE STOCKS
IN A STRATEGIC POSITION

Companies In Line for Post-War Growth

BY GEORGE L. MERTON

Fairchild Aviation Corp.

This company occupies a unique position in the aviation industry, inasmuch as production includes precision devices such as aerial cameras, navigation instruments, range finders, etc., and camera machine guns or military and commercial use, while aerial surveys are also conducted. The former airplane and airplane engine divisions were segregated in 1936. Among other products of Fairchild may be mentioned photographic equipment and supplies; gun fire control devices, radio compasses and sound recording equipment. The American and foreign governments provide the largest markets for the company's output. Fairchild also owns over half of the stock of Taylorcraft Aviation Corp., a small corncern making light planes for private flying and for military observation. As a result of war needs, the company's plant at Jamaica, N.Y., has been considerably enlarged.

Capitalization consists of 337,032 shares of $1 par value. Balance sheet as of Dec. 31, 1941, showed a satisfactory financial condition with current assets of $5,996,000, including cash of $1,485,000, compared with current liabilities of $4,582,000. Latest income account, that for the nine months ended Sept. 30, 1942, disclosed earnings of $1.99 per share, compared with $1.98 in the similar 1941 months. Dividends of $1.00 paid last year included a payment of $0.50 on Dec. 23, and compared with $1.25 a share in 1941.

Though war time operations will remain at expanded levels, taxes and costs will perhaps prevent important gains in net income. The cyclical growth of aviation in future years, with anticipated large extension of private flying, provides optimistic long-term direct and indirect earnings potentialities for Fairchild, with the aerial survey division expected to assume increasing importance after the war. Research activities should also be productive of new sources of revenue. Recent earnings suggest that 1943 dividends may equal last year's $1.00 payments, despite working capital needs. The stock, at current prices around 8, represents an interesting speculation for income and long-term price appreciation in one of the potentially most profitable departments of the aviation industry. Moreover, this company has pioneered in moulded plywood processes which bid fair to have wide application in many non-aviation markets after the war.

Fansteel Metallurgical Corp.

Under the stress of war needs, industrial research activities have been greatly intensified. These have been especially notable in the field of metallurgy, where the success achieved by Fansteel finds reflection in widening outlets for many of its recently developed metal alloys. Principal markets are provided by the aviation, chemical, electrical manufacturing, radio (for which electronic tubes are made), rayon, railway, and telephone and telegraph industries. Basically, the company's operations consist of mining of such rare metals as tungsten, tantalum and molybdenum and processing of these metals, and their alloys and products. Tungsten supplies are obtained from a Colorado mine. Tantalum ore comes chiefly from Australia, the remainder being secured from leased deposits in South Dakota. Tungsten products are understood to provide nearly one-half of total sales. This metal is used in lamp filaments, vacuum tubes, X-ray tubes, etc., as well as for numerous electrical contacts. Tantalum has the properties of great resistance to corrosion, and is advantageously used in making rayon spinnerets and in electrical rectifiers, and also in the protection of recording, indicating and regulating instruments.

Tantalum-tungsten carbides are employed in making cutting tools, dies, etc. Fansteel holds a two-thirds interest in Vascoloy-Ramet Corp., which processes Fansteel's products into the finished tool blanks, die nibs, cutting tools and drawing dies.

Capitalization consists of 7,274 shares of $5 non-cumulative preferred and 206,434 shares of no-par common stock. Serial notes to banks, in the amount of 70,000, mature in 1943 and 1944. Company earnings for 1942 are estimated at sharply higher than the $1.58 per common share reported in 1941. Dividends were resumed in 1941, after a 13-year lapse, with a payment of $0.25 per common share, followed by a similar disbursement last year. Inventories at the 1941 year-end were substantial, though cash holdings were small.

This company appears to possess unusually attractive long-term earnings potentialities. Rehabilitation needs, new and and improved methods of conducting manufacturing operations, further development of new products for industrial and commercial

use: all combine to provide this organization with steadily expanding markets for its production in future years. Working capital needs may restrict common dividend payments over the next year or so, but the common shares comprise an excellent long-pull speculation on the company's post-war profit prospects.

Greyhound Corp.

Restrictions upon use of private motor cars and greatly increased utilization of facilities for troop movements have been of especial benefit to the bus transportation companies, operating throughout the country, which are controlled by Greyhound Corp. This is reflected in the consolidated statement of operating revenues for the nine months ended Sept. 30, 1942, these aggregating $90,139,000, or nearly 60% above revenues for the similar 1941 months. Profits were equal to $2.39 per share of common (outstanding in the amount of 2,792,075 no-par shares), compared with $1.89 per share in the same period of 1941. Indications are that the 1942 report will show about $3.00 per share on the common, which would compare with $2.28 for the full year 1941. Capitalization, in addition to the common shares, includes 322,717 shares of $10 par 5½% cumulative preference stock (convertible into one-half share of common) and—as of Dec. 31, 1941—equipment obligations of $12,497,000, as well as minority interest of $14,471,000. At the end of 1941, the company had nearly 3,400 buses in operation over 63,000 miles of route.

Capacity operations are expected to continue throughout the war. Pooling of services and elimination of duplicate operations in certain areas, as well as increasing use of Diesel engines in buses, will result in further operating economies in future, while regulation of interstate rates by the ICC will decrease the effects of competition from smaller bus concerns. Resumption of super-highway construction after the war is a favorable long-term factor from the standpoint of future revenues, as is the probability of securing a larger portion of all short-haul land passenger traffic.

Dividends on the common amounting to $1.25 per share in 1942 equalled those paid in the previous year. The satisfactory financial position, as well as the wide earnings coverage indicate that 1943 common payments will approximate distributions of the past two years. These factors, considered in connection with the optimistic earnings outlook, afford the common shares considerable appeal at prevailing quotations.

Philco Corp.

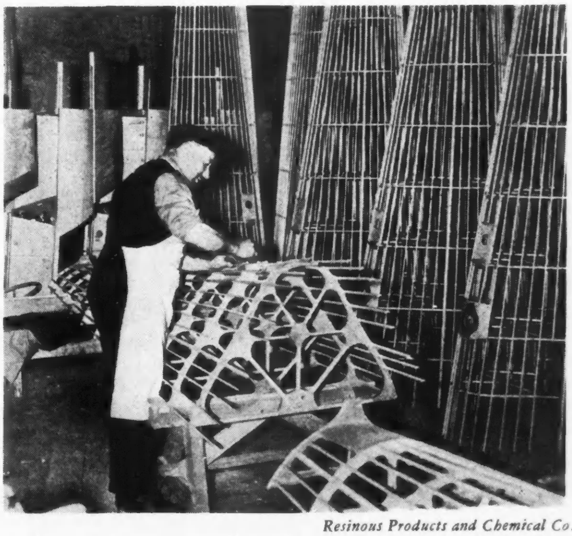
Production of Philco Corp., now devoted 100% to the war effort, is being conducted at record levels, with further expansion indicated during coming months. Current output includes radio and communications equipment, shells, fuses and storage batteries for the Army and Navy. Normally, the company is the largest manufacturer of radio receivers (accounting for about 20% of such business) and relevant equipment and is also prominent in production of storage batteries, refrigerators and air-conditioning devices. In peace time, home radio receivers provided about one-half of total company sales, with automobile receivers about 20%.

Capitalization consists of 1,372,143 shares of $3 par value, of which nearly 40% is owned by officers and directors, with employes holding around 30%. Earnings for the nine months ended Sept. 30, 1942, continued the upward trend in evidence for the past few years, amounting to $1.09 per share, compared with $1.02 per share for the corresponding months of 1941. Dividend payments of $0.75 in 1942 compared with $1.00 in the previous year. However, distribution of $0.10 on Dec. 10 and $0.20 as a year-end dividend on Dec. 28 suggest a more liberal dividend policy this year, especially in view of the satisfactory earnings outlook. Profits for 1942 are estimated at around $1.75 per share, which would compare with actual results of $1.83 per share in 1941.

The experience gained in creation and development of new electronic devices for modern warfare will be of immeasurable value in the post-war years, especially in connection with improvement of frequency modulation and television sets. Resumption of manufacture in other normal lines will also contribute in considerable degree to total revenues, suggesting continuation of the trend toward generally higher net profits noted in recent years. Although the shares are selling at approximately the highest prices of the past three years, they may still be considered an attractive speculation on the company's peace time earnings and growth potentialities.

Sharp & Dohme, Inc.

Altered operating methods, modernization of plant, and constant (*Please turn to page* 496)



Resinous Products and Chemical Co.

Modern plastic plywood is bringing the wood airplane back and will go places in many industries after the war.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.**

Special rates upon request for those requiring additional service.

Paramount Pictures Call

I understand that one half of the outstanding preferred stock of Paramount Pictures is to be called on April 1st 1943. I am the owner of 10 shares of this stock bought on your recommendation. My stock may be in that call. Shall I sell this stock or convert into common stock?—A. H., Minneapolis, Minnesota.

One half of the outstanding 121,352 shares of 6 per cent cumulative convertible preferred stock of Paramount Pictures, Inc. is to be redeemed on April 1, 1943, at the call price of $100 per share. Redeemable stock will be determined by lot on January 22nd. Shares to be redeemed may be converted into 7 shares of common for each share of preferred, on or before March 18th and, even though the call price is materially below the current market, it should have no effect on the price level until that date.

It is our suggestion that no action be taken at the present time by holders of called shares, although such commitments should be converted or sold by March 18th, in order to avoid the adjustment of the market to a figure more nearly approximating the redemption price.

Conversion into common at current prices is practically equivalent to selling the preferred and buying the common in the open market.

Stockholders contemplating conversion should do so before the issues begin selling ex (about mid-March), as the return on common is higher than on the preferred, that is, on the 7 to 1 basis, assuming of course, that the common dividend is 30 cents per share.

Commonwealth & Southern Pfd.

Concerning Commonwealth and Southern preferred: I note by the Pocket Statistician that the arrears of preferred dividends are $23.25 as of 7/1/42. What is the prospect of these back dividends being paid? The stock as quoted Jan. 8, 1943, was 40½ and the dividend paid in 1942, $1.50. Formerly it had paid $3.00. What caused the shrinkage? I am told that there is to be some readjustment in regard to this stock and Tennessee Valley Project. Can you give me any information concerning same?

In short, to buy or not to buy, that's the question.

Please also give me your advice as to buying the common of this stock.—C. S., Marseilles, Illinois.

This is to acknowledge your letter of January 10, asking for certain information on the Commonwealth and Southern $6.00 accumulative preferred stock. On May 26, 1942, company took no action on its preferred dividends, two quarterly dividends of 75¢ each having been paid on January 2 and April 1, respectively. This action, no doubt, contributed largely to the shrinkage in the market price. Arrears on January 1, 1943 amounted to $26.25.

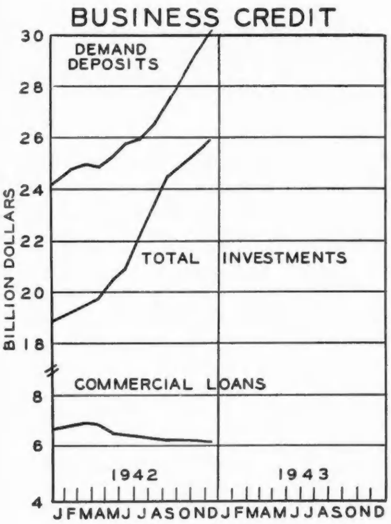
An order issued by the SEC on April 2, 1942, required Company to recaptialize its preferred and common stocks into a single class of common stock in conformance with the corporate simplification provision of the Holding Company Act. This order was appealed to the court and on October 22, 1942, company filed brief declaring that the Commission had overstepped its powers in applying the "death sentence" provision of the Public Utilities Holding Company Act, and requested the court to set aside the order as "beyond the authority of the Commission and in violation of the Constitution of the United States."

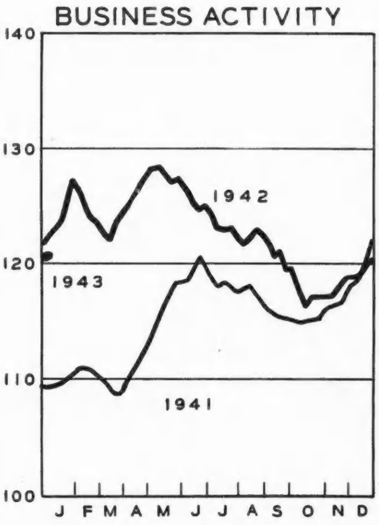
A hearing before the SEC in December was on Company's application to reduce the stated value of the oustanding 1,500,000 shares of preferred stock from $100 to $10 a share without changing the carrying value of its assets. Company asserted this would facilitate payment of dividends on its preferred stock. To state specifically what the final outcome of these proceedings will be, would be purely conjectural on our part.

For the twelve months ending November 30, 1942, gross earnings improved substantially but net income was lower, earnings on the preferred stock amounted to $7.18 as compared with $8.05 in the preceding year. This was due principally to the fact that the excess profit taxes amounted to $20,300,027 as compared with $8,261,904 in the preceding year. The overall coverage was 1.04 times as compared with 1.07 times.

(Please turn to page 495)

The Business Analyst





CONCLUSIONS

INDUSTRY—Ship sinkings might force cut in armament program. New Dealers plan post-war leveling of incomes.

TRADE—Boom in retail sales curbed by receding stocks of merchandise.

COMMODITIES—Trading in all commodity futures markets continues light as dealers looked to Washington for price control developments.

MONEY AND CREDIT—December dividends were 12% under a year earlier, against decrease of only 5% for 1942 calendar year.

With all components of this publication's business index reporting better than normal seasonal gains, per capita **business activity** has staged a two-point recovery during the past fortnight to the best level since August. **Lend-Lease** expenditures from March, 1941, through December, 1942, totaled $8.25 billion, or 7.8% of our total war outlay during that period. Armament transfers accounted for $3.71 billion; industrial materials, $1.57 billion; agricultural products, $1.27 billion; and services, $1.7 billion. The United Kingdom and British territories were debited with 77% of the total; Russia, 18%; and China, 2%. Such were our expenditures. How much was sunk is not disclosed.

* * *

If the Government's huge war spending program goes through as planned, overall business activity this year will be even greater than last year; but this forecast could be torpedoed by enemy **submarines.** Ship sinkings are bad enough now and may develop into a serious menace this summer. The pests are being bred about twice as fast as we are destroying them. Nearly all the vast tonnage turned out by our shipyards goes merely to replace sinkings. Should it develop that we are producing far more for overseas use than can be shipped, then the volume of our armament production might have to be cut.

* * *

On the other hand, expanding armament production spells declin-

(Please turn to the following page)

Business and Industry

	Date	Latest Month	Previous Month	Prior Year
INDUSTRIAL PRODUCTION (a)	Dec.	194	192	168
INDEX OF PRODUCTION AND TRADE (b)	Dec.	122	124	113
Production	Dec.	134	134	118
Durable Goods	Dec.	156	157	124
Non-durable Goods	Dec.	116	115	114
Primary Distribution	Dec.	134	136	121
Distribution to Consumers	Dec.	84	93	98
Miscellaneous Services	Dec.	139	138	111
WHOLESALE PRICES (h)	Jan.	101.6	100.7	95.6
COST OF LIVING (d)				
All items	Dec.	101.0	100.3	93.4
Food	Dec.	108.3	106.5	92.6
Housing	Dec.	90.8	90.8	89.9
Clothing	Dec.	88.6	88.6	80.1
Fuel and Light	Dec.	90.6	90.5	90.3
Sundries	Dec.	106.4	106.2	102.8
Purchasing Value of Dollar	Dec.	99.0	99.7	107.1
NATIONAL INCOME (cm)†	Nov.	$10,394	10,576	8,111
CASH FARM INCOME†				
Farm Marketing	Nov.	$1,765	1,962	1,210
Including Gov't Payments	Nov.	1,826	2,015	1,278
Prices Received by Farmers (ee)	Dec.	181	168	144
Prices Paid by Farmers (ee)	Dec.	155	155	143
Ratio Prices Received to Prices Paid (ee)	Dec.	114	108	101
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	156.6	155.3	138.4
Non-durable Goods	Nov.	121.2	121.5	118.1
FACTORY PAYROLLS (f)	Nov.	270.8	260.9	185.0
RETAIL TRADE				
Retail Store Sales $†	Nov.	$4,927	5,282	4.569
Durable Goods (a)	Nov.	100.0	100.3	134.1
Non-durable Goods (a)	Nov.	172.9	166.2	144.6
Chain Store Sales (g)	Dec.	175	187	157
Retail Prices (s) as of	Nov.	113.1	113.1	107.5
FOREIGN TRADE				
Merchandise Exports†	Nov.	$779	$768	$481
Cumulative year's total† to	Nov.	6,953	....	4,383
Merchandise Imports†	Nov.	183	230	276
Cumulative Year's total† to	Nov.	2,376	....	2,883
RAILROAD EARNINGS				
Total Operating Revenues*	Nov.	$690,108	745,584	457,011
Total Operating Expenditures*	Nov.	406,389	416,430	335.614
Taxes*	Nov.	118,637	127,748	40.717
Net Rwy. Operating Income*	Nov.	148,948	184,680	68.933
Operating Ratio %	Nov.	58.59	55.85	73.44
STEEL				
Ingot Production in tons*	Dec.	7,303	7,185	7,150
Year's Total Production* to	Dec.	86,092	78,789	82.836
Shipments, U. S. Steel in tons*	Dec.	1,849	1,665	1,846
GENERAL				
Paperboard, new orders (st)	Nov.	482,582	519,306	527,829
Lumber Production† (bd. ft.)	Nov.	2,394	2,805	2,572
Cigaret Production†	Dec.	19,716	20,477	16,201
Bituminous Coal Production* (tons)	Dec.	48,400	47,350	48.694
Portland Cement Shipments* (bbls.)	Nov.	14,627	20,345	13,724
Commercial Failures (c)	Dec.	506	585	898

PRESENT POSITION AND OUTLOOK

(Continued from page 491)

ing business volume for a number of civilian industries. With completion of defense plant projects and virtual cessation of private building, **construction** will be only half as great as last year, and building supplies will be in much smaller demand. Owing to declining construction volume, Washington officials who refuse to be quoted think that **freight traffic** on the nation's railroads has already passed its crest for the duration. Retail, and hence wholesale, **trade** will also decline. Several large **magazines** are planning sizeable reductions in their newsstand circulation to save paper.

* * *

Employment lower than a year ago is already being reported in non-ferrous metal mining and by producers of lumber and furniture; bituminous coal; paperboard; silk, rayon and woolen textiles; clothing and shoes; paper, pulp, printing and publishing; and, rather curiously, by electric light and power plants.

* * *

Cash **dividends** declared in December were 12% less liberal than a year earlier; but disbursements during all of 1942 were only 5% below 1941.

* * *

The **Farm Bloc** is peeved with **organized labor** and with Federal agencies. Recently the former called upon Congress to raise agricultural commodity prices (now 15% above last year), to increase the industrial work week to at least 54 hours, and to eliminate overtime pay. O. P. A.'s answer to this was to "ceil" corn at the January 11 highs, for the purpose of encouraging its use as livestock feed. This was followed shortly by Secretary Wickard's order authorizing sales of soft wheat from Government stocks to prevent millers from being squeezed again by their recently raised ceiling prices on flour. The grain is being offered at parity, several cents above recent market levels. Looks as though the farm bloc will be backed by Congress in its quarrel with Government agencies and departments. Organized labor and the farm bloc each assumes that this war is being fought for its special benefit; yet there is no love lost between the two.

* * *

In a recently reported interview, Vice-President Wallace, who is also chairman of the Board of Economic Warfare, revealed a significant outline of the New Deal's **post war plan.** 1—The Government will be responsible for the general welfare of our people. 2—If private industry does not maintain full employment, the Government will, by continuing to pour out billions. 3—Intensified campaign against business monopolies. 4—Speculation in securities and commodities to be further curbed. 5—Incomes to be leveled by legislation. This is the gist of Mr. Wallace's statement. What he actually said was sugar coated to convey the thought that there is still

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Prior Year
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Jan.16	120.5	119.8	123.6
ELECTRIC POWER OUTPUT K. W. H.†	Jan. 23	3,974	3,952	3,440
TRANSPORTATION				
Carloadings, total	Jan. 23	703,578	755,369	818,081
Grain	Jan. 23	45,220	53,351	47,201
Coal	Jan. 23	164,207	165,789	162,450
Forest Products	Jan. 23	33,669	42,459	47,365
Manufacturing & Miscellaneous	Jan. 23	336,014	362,768	370,602
L. C. L. Mdse.	Jan. 23	84,487	86,663	149,487
Ore	Jan. 23	13,559	14,365	14,103
Coke	Jan. 23	15,136	15,314	14,212
Livestock	Jan. 23	11,466	14,570	12,341
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 11	23.61	23.61	23.61
Scrap $ per ton (m)	Jan. 11	19.17	19.17	19.17
Finished c per lb. (m)	Jan. 11	2,305	2,305	2,305
STEEL OPERATIONS				
% of Capacity week ended (m)	Jan. 28	99.5	100.0	97.0
PETROLEUM				
Average Daily Production bbls*	Jan. 23	3,849	3,849	4,311
Crude Runs to Stills Avge. bbls.*	Jan. 23	3,615	3,640	3,640
Total Gasoline Stocks bbls.*	Jan. 23	87,102	84,955	99,345
Fuel Oil Stocks bbls.*	Jan. 23	71,216	71,517	90,764
ENGINEERING CONSTRUCTION				
Volume* (en)	Jan. 28	$41,855	67,930	221,694

PRESENT POSITION AND OUTLOOK

a last chance for survival of private initiative in America—*if.* Then he proceeded to knock down this beautiful paternalistic edifice by interjecting (quote) "we need the driving force of self-interest to get most of the work of the world done." Well, perhaps the voters of America will have something to say about this program, through their representatives in Congress.

* * *

New orders for durable goods in November were 62% larger than for the like month of 1941; but non-durables reported a gain of only 9%. Sales by all **retail stores** during that month totaled $4.93 billion, a rise of 8% over November, 1941. **Inventory** values carried by wholesalers at the end of November were 19% lower than a year earlier. **Chain store sales** in December were 4.6% ahead of the like month of 1941, compared with an increase of 12% for the 1942 calendar year. **Variety store sales** last year were 15.6% above 1941; but **mail order sales** were off 2.6%. **Department store sales** in the week ended Jan. 16 were 1% larger than last year in dollar amount, against a four-week's rise of 8%.

* * *

Crude oil production last year was 8% below 1941. Distillers are planning to ration **liquor,** production having ceased. At current rate of consumption present stocks would last only three years.

†— Millions. *—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

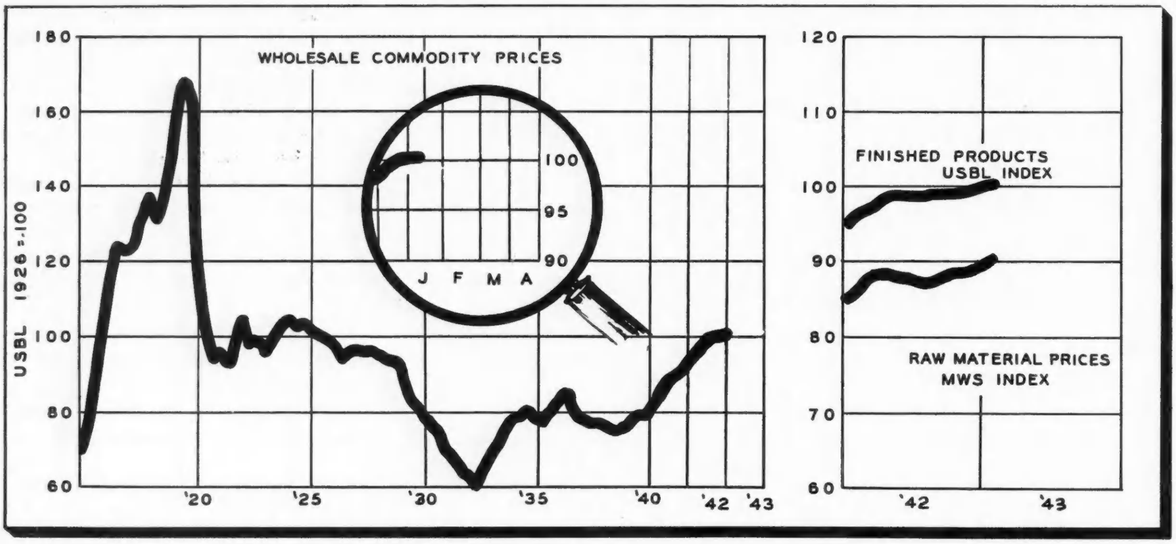
No. of Issues (1925 Close—100)	1943 Indexes High	Low	Jan. 23	Jan. 30
273 COMBINED AVERAGE	62.7	54.5	59.9	62.7C
3 Agricultural Implements	114.3	105.4	111.0	114.3D
9 Aircraft (1927 Cl.—100)	146.3	131.8	140.4	146.3
5 Air Lines (1934 Cl.—100)	376.5	369.5	369.5	373.0
5 Amusements	42.9	40.2	41.2	42.9
12 Automobile Accessories	96.8	83.0	92.6	96.8C
13 Automobiles	12.1	9.7	11.3	12.1D
3 Baking (1926 Cl.—100)	9.7	8.5	8.9	9.7B
3 Business Machines	136.9	129.4	133.3	136.9D
2 Bus Lines (1926 Cl.—100)	70.2	54.9	70.2C	69.8
5 Chemicals	164.6	153.5	161.7	164.6B
13 Construction	26.0	23.3	25.5	26.0B
5 Containers	198.4	177.1	196.5	198.4B
8 Copper & Brass	73.2	63.6	69.3	73.2
2 Dairy Products	32.2	29.7	31.7	32.2C
6 Department Stores	18.0	15.4	17.6	18.0B
5 Drugs & Toilet Articles	56.8	50.9	56.3	56.8C
2 Finance Companies	162.7	152.6	157.2	161.0
6 Food Brands	98.1	85.5	94.7	98.1C
2 Food Stores	39.1	37.9	38.6	38.5
4 Furniture	39.1	35.0	35.9	39.1B
3 Gold Mining	686.6	610.3	658.5	686.6B
6 Investment Trusts	26.7	22.7	24.1	26.7D

(Nov. 14, 1936, Cl.—100)	High	Low	Jan. 23	Jan. 30
100 HIGH PRICED STOCKS	56.35	52.87	54.96	56.35B
100 LOW PRICED STOCKS	53.46	43.61	50.26	53.46C
3 Liquor (1932 Cl.—100)	213.6	197.1	209.6	213.6E
8 Machinery	90.6	82.6	85.9	90.6B
2 Mail Order	66.3	61.8	64.1	66.3B
3 Meat Packing	43.4	34.9	40.2	43.4
10 Metals, non-Ferrous	126.4	106.8	120.5	126.4
3 Paper	10.5	9.0	10.4	10.5
21 Petroleum	99.2	86.9	91.9	99.2D
18 Public Utilities	30.0	23.2	27.6	30.0B
3 Radio (1927 Cl.—100)	15.3	12.1	14.2	15.3D
7 Railroad Equipment	37.0	32.1	35.6	37.0
17 Railroads	10.8	9.8	10.8	10.8
2 Shipbuilding	91.8	83.4	89.4	91.8
3 Soft Drinks	225.2	197.8	209.3	225.2C
12 Steel & Iron	64.1	57.6	61.4	64.1
2 Sugar	36.5	32.2	35.9	36.5
2 Sulphur	188.1	180.2	183.8	188.1B
3 Telephone & Telegraph	74.6	67.0	69.1	74.6F
3 Textiles	38.4	33.7	37.7	38.4B
3 Tires & Rubber	18.5	16.5	17.1	18.5D
4 Tobacco	58.5	52.2	56.7	58.5B
2 Variety Stores	204.8	182.4	195.5	204.8B
20 Unclassified (1942 Cl.—100)	124.8	100.0	113.8	124.8

New HIGHS since: B—1941; C—1940; D—1939; E—1938; F—1937.

Trend of Commodities

Trading in domestic commodity markets at the close of the past week reached very light proportions as dealers looked to Washington for further price control developments. Recent price changes have been irregular. Trading in grains has reached a very low ebb as reports became current of a possible price ceiling on wheat. Corn prices have been holding up well, although the cash demand is slow, reflecting recent heavy industrial purchases. Wheat has eased minor fractions in price, with marketings light. Cotton has developed a heavy tone, as traders are kept on the anxious seat by uncertainties in the farm parity issue. The principal demand continues to come through trade interests on a scale down though price fixing activities were light. Traders believe the huge potential demand for cotton textiles to fill military and lend-lease needs will continue to be overshadowed by the parity issue until it has been cleared up. The wool market remained firm, although suffering some slight price recessions due to profit taking. Egg prices have declined recently to a new season's low due to accumulating supplies, while the demand remains on a hand-to-mouth basis. Oats have advanced in price due to a slight improvement in consumer demand.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1929, equal 100

	Jan. 28	Jan. 21		Jan. 28	Jan. 21
28 Basic Commodities	174.3	173.8	**Domestic Agricultural**	201.5	199.9
Import Commodities	164.9	164.2	**Foodstuffs**	199.3	198.6
Domestic Commodities	180.6	180.4	**Raw Industrial**	157.4	157.1

Commodity Briefs

Sugar. Under the current rationing basis yearly consumption of sugar in the United States is estimated at less than 5 million tons compared with 6½ million tons consumed in 1941. Per capita consumption last year is placed at 85 pounds, compared with 111 pounds in 1941. Little or no difficulty is expected in producing sufficient sugar to fill these reduced wants in 1943. Offshore countries are expected to easily provide 2.8 million tons, while domestic cane and beet sugar production in this country is expected to reach the 2.2 million ton level needed to insure the 5 million tons total needed to meet the nation's requirements.

Rayon. Production of rayon in American mills during 1942 totaled 632,600,000 pounds, an increase of 10 per cent over 1941, and a new high record the Textile Economics Bureau, Inc., estimates. The production of rayon filament yarns amounted to 479,300,000 pounds, an increase of 6 per cent. Staple fiber output amounted to 153,300,000 pounds, an increase of 25 per cent. Use of rayon also registered a new high record. Deliveries to consumers amounted to 620,600,000 pounds an increase of 5 per cent over 1941.

Dairy Products. Action taken by the Department of Agriculture during the past month will very considerably restrict the supply of dairy products available for civilian consumption in the United States in 1943. With 30 per cent of the production of creamery butter set aside for war use, civilian consumption of butter on a per capita basis may be about 3 pounds (20 per cent) smaller in 1943 than in 1942. Civilian consumption of evaporated milk this year will be cut by more than 25 per cent. The reduction will actually seem greater to most civilians than 25 per cent since the increased purchasing power of consumers at ceiling prices will normally bring about increased consumption. Ice cream production in January will be held at about 75 per cent of last year's January production.

Coffee. The visible supply of coffee is down to 797,000 bags, the Coffee and Sugar Exchange estimates. Those figures include 495,000 bags now afloat. A year ago the visible supply was 2,434,000 bags. Coffee arrivals so far in 1943 are calculated at 325,000 bags contrasted with 1,106,000 bags a year ago. Deliveries so far this year amount to 726,000 bags against 1,032,000 bags in the corresponding 1942 period.

Cocoa. The largest arrivals of West African cocoa reported in weeks recently reached American ports. The four African steamships carried 98,053 bags in their cargoes. The cocoa is reportedly for consumption in this country. No arrivals from Brazil were reported. In the meanwhile certified cocoa stocks in warehouses have fallen below the 100,000 bag level. They decreased 5,042 bags over the last week end, with the result that they now total only 93,172 bags.

Answers to Inquiries

(*Continued from page 490*)

The price range on the preferred stock in 1942 was: high 44⅛; low 21⅛; stock is now selling at 40. Undoubtedly this system will be simplified and changed but the preferred stock appears to occupy a relatively good position. However, there are so many factors to be clarified, we would prefer to await a reaction in this stock. In the interim, we feel that there are some attractive second grade railroad bonds which are attractively priced and provide a good income return. For recommendations, we respectfully refer you to recent issues of THE MAGAZINE OF WALL STREET.

Canadian Stocks

I have on deposit in Canadian banks about $15,000 available for immediate investment and would appreciate your opinion on possible Canadian investments. These funds cannot be transferred to the States because of the Foreign Control Exchange regulations.

I have already purchased about $5,000.00 in Canadian Victory bonds. Many of the gold stocks are selling at very high dividend returns. What are their prospects?

I have a steady income and can take what is ordinarily termed a business man's risk to the full amount of these funds.

Any suggestions will be very much appreciated.—H. A. W., Buffalo, New York.

We recently made an exhaustive survey of Canadian gold stocks, for one of our clients and are thoroughly familiar with the situation. Our summary and opinion is as follows:

To increase the output of base metals, the Dominion government assumed virtual control of the Canadian mining industries in the latter half of 1942. Special permission must be obtained from the metal controller to open new mines, expand mines already in production, or to operate properties not in production last June. Gold mine tonnage may not exceed the average monthly milling rate for the first four months of 1942, and extensive development work is prohibited. As a further important measure of relief, labor turnover in the mines is now restricted and the transfer of gold miners to base non-ferrous production has recently started.

As a result of the diversion of labor and priorities on materials, the downtrend in earnings of established gold producers will continue during coming months. Dividend payments during 1943 will be conservative or discontinued in many instances to reinforce cash positions. However, for patient holders, the gold stock group have above average merit, for profitable resumption of activities after the peace. We personally like McIntyre Porcupine and Dome Mines.

For purposes of diversification, some of the attractive issues in Canada, are the following: Canada Packers, Ltd., Canadian Celanese, Imperial Tobacco of Canada, and National Steel Car. These common stocks are listed on the Montreal or Toronto Stock Exchanges, and are paying fairly liberal dividends.

Scandinavian Bonds

As a subscriber to your magazine for the last five or ten years, may I ask you to please give me your opinion, from an investment standpoint, after the war is over, of:
Oslo City Bond, 4½% due 1955
Kingdom of Denmark Bond, 5½% due 1955
Copenhagen City, Denmark, 4½% due 1953

I would like your information to cover the past history of these bonds, as to their date of issue, all-time high price, and its date, all-time low price, and its date, 1942 high and low prices. Also the time and circumstances, interest payments wherever deferred. Specifically, please give me the reason, if any, aside from the war situation, as to why the latter two are selling relatively low.

Let your information be toward evaluation of the bonds from the viewpoint of after the war, with the understanding the United Nations will eventually win.—J. F. S., Lock Haven, Pennsylvania.

In accordance with your request of January 11, we are pleased to give you the information requested therein.

Kingdom of Denmark External 5½% bonds due August 1, 1955. This issue is outstanding in the amount of $20,400,000 and was issued August 1, 1925. The issue is protected against establishment of any prior lien on any state asset or revenue. It is listed on the New York Stock Exchange and the price range in 1942 was: high 55; low 26¼, last 45. The price range in 1941 was: high 52; low 29⅞. Sinking fund payment of $1,200,000 annually was suspended in January 1942. The issue is free of all Danish taxes. Interest has been paid regularly on this issue, last payment being August 1, 1942. The highest price registered in the last five years was 104 in 1938 and the low was 18⅛ in 1940.

Copenhagen City, Denmark, External 4½% bonds due May 1, 1953. This issue is outstanding in the amount of $12,000,000 and was issued in May 1928. It is protected against the establishment of any prior lien on any municipal asset or revenue. They are listed on the New York Stock Exchange and the price range in 1942 was: high 49½; low 18¼; last 40. This issue is also free of Danish taxes. The interest has been paid regularly on this issue, last payment being on November 1, 1942. The highest price reached in the last five years was 100½ in 1938 and the low was 15⅞ in 1940.

Oslo City, Norway, External Sinking Fund 4½% bonds of April 1, 1955. This issue is outstanding in the amount of $5,545,000 and issued in 1936. They are listed on the New York Stock Exchange and the price range in 1942 was: high 74⅞; low 27½; last 72. This issue is free of any Norwegian taxes. Sinking fund payments on this issue were suspended on April 1, 1941. Interest has been paid regularly and the last payment was October 1, 1942. The highest price reached in the last five years was 103½ in 1938, and the low was 19½ in 1940.

Norwegian bonds generally appear to be in a little better defined position than those of the Government of Denmark, not only because the relation between outstanding dollar bonds to frozen assets has been more favorable, but also because the country's most valuable asset, its merchant fleet, is actively engaged in support of the Allied war effort, thereby contributing to current income of the exiled Norwegian Government. The Danish loans also have speculative possibilities but due to an inferior asset position, is in a more pronounced degree, dependent upon the outcome of the war. Last January sinking

fund service payments were suspended indefinitely. Denmark's liquid credit balance on December 31, 1941 at the Federal Reserve amounted to $18,100,000, whereas the estimated annual interest charges on American held dollar bonds is $4,000,000. The foregoing extenuating factors are undoubtedly reflected in the prices of the Denmark bonds.

Assuming an Allied victory, possibilities in the post war reconstruction period should afford better opportunity for disposal of these issues, although the intermediate future probably will, as it has in the past, proved a trying time for holders of these issues. Obviously, these foreign bonds are in a tenuous position and any adverse war news will undoubtedly have a psychological effect on market prices. In our opinion, your investment funds could be used more advantageously.

Illinois Central Leased Lines

I would like to get whatever information you can furnish me with pertaining to the stock of the Illinois Central R. R. Leased Lines $4.00

Is this a cumulative pfd.? Is it guaranteed? It seems to be very attractive for income. How speculative is it? More so than the Illinois Central refunding bonds?

I will appreciate whatever information you can offer.—D. E. R., New London, Wisconsin.

Acknowledging your inquiry of January 11 requesting information on the Illinois Central Railroad 4% Leased Line stock certificates, please be advised that these certificates are outstanding in the amount of $9,989,700, par value $100 and were issued under terms of lease of the Chicago, St. Louis and New Orleans Railroad to the Illinois Central Railroad dated January 13, 1882. They are secured by a deposit of a like amount of Chicago, St. Louis and New Orleans Railroad stock with the Illinois Central Railroad. Certificates are entitled to dividends of 4% per annum. In case of default, in dividends for sixty days, holders will be entitled to receive a like number of shares of original stock pledged.

These certificates are listed on the New York Stock Exchange and since 1938 have ranged from a low of 23 to a high of 49. In 1942, the price range was high 42; low 32¼; last 38. At this price, based on a $4.00 dividend rate, the yield is 10.5%. The spread between the high and low prices registered in each year attest to the tenuous position of this stock. The dividend is not guaranteed by the Illinois Central Railroad and the stock is more in the position of a debenture bond. This stock cannot be given as high a rating as the senior bond obligations of the Illinois Central.

Five Stocks In a Strategic Position

(*Continued from page* 489)

development of new products have placed this drug manufacturing organization in excellent position to profit not only from the needs of the civilian population, but also from the tremendous requirements of our armed forces. The company produces and markets more than 4,000 pharmaceutical and biological items, and also many proprietary specialties, with the latter believed to furnish a smaller portion of gross volume.

Capitalization as of Dec. 31, 1941, consisted of 229,085 shares of $3.50 cumulative preference stock of no-par value (each share convertible into two common shares), and 776,627 shares of no par common stock. Finances were strong at the 1941 year-end, with current assets of $10,213,000, including cash of $973,000 and inventories of $6,069,000, compared with current liabilities of $1,681,000. Dividends were initiated on the common stock in 1941, totaling $0.20 per share, while last year's payments amounted to $0.40 per share of common.

Expansion of the army and navy indicate further large Government orders, particularly for sulfa drugs, pharmaceuticals and biological products. In 1942, the company announced a practical method of making normal human plasma (dried blood) available to any part of the world. Domestic sales should also be well sustained throughout this year. Laboratory developments should result in introduction of additional lines in the future. These considerations afford the company encouraging long-term sales growth possibilities, which are expected to find reflection in enhancement of net income after the war. Report for 1942 may show earnings in excess of $1.50 per common share, which would compare with $1.14 per share for 1941. The recently established $0.15 quarterly dividend should be easily maintained.

Investment Information, Please Proposal No. 2

(*Continued from page* 464)

ahead offers excellent opportunities for capital building so he is justified in acquiring some sound lower priced stocks.

To double income and strengthen enhancement potentialities I suggest that the investor transfer from his present portfolio to the one detailed in the accompanying table.

This transfer of capital will expand yield from 4.05% to 8.39%—an increase in income of $1,169. In addition it is my opinion that profit prospects will be far greater. The quality of the list has been lowered somewhat, particularly by elimination of the investment grade preferred stocks, but those had no profit potential, offered but a small yield and were not a good inflationary hedge.

The two bonds recommended offer a substantial, dependable return and sound prospects for price increase. Southern Pacific earned interest charges 3.48 times in the ten months ended October 31, 1942, as against 2.37 times in the same period of the previous year. Atlantic Coast Line R. R. earned their interest charges 3.74 times in the first ten months of 1942 as compared with 2.41 times in the equivalent period of 1941. This excellent coverage should be continued for some time by both carriers. National Supply 6% preferred paid $9 in dividends in 1942 and this will be repeated in 1943 with the clearing up of $3 in arrears. Celotex is going to show an increase in sales this year. It represents a good stake in the promising future for the building industry after the war. Interlake Iron could readily show a 50%

advance from present levels and still be under the 1941 high of 11¼; my studies show it to be clearly undervalued today. Mid-Continent Petroleum is a strong, integrated oil company. Earnings in the first nine months of 1942 were up to $2.58 per share contrasted with $1.91 in the same months of 1941. The future is good and substantial crude reserves mark the issue as an inflationary hedge. New York Central R. R. is likely to seek future financing through common stock and a continued dividend is probable while enhancement prospects are good. United Gas Improvement also offers unusual income and growth promise. Even if the company should be liquidated by the S.E.C. the stockholder would probably receive more than the present market price.

Naturally, I have special detailed reasons for selecting each of the above issues in preference to others available, but these cannot all be specified in an article of this length. I sincerely believe that the investments suggested will solve the problem of the Florida investor by doubling his income and bringing him healthy capital expansion in the next twelve months. I close with a warning that today no issue can be held indefinitely so that any or all of my suggestions may attain prices where profit-taking will be advisable and re-investment should be effected.

Investment Information, Please Proposal No. 1

(*Continued from page* 464)

in equities. Here, again regular income was the paramount consideration. Many companies may have to defer or reduce the dividend rate on their common stocks but still be able to pay on their preferred stocks. Incidentally, the four preferred stocks shown are all cumulative as to dividends and, if deferred, should ultimately be paid.

Another way one may save this year with resultant increase of income is by reviewing his insurance

policies. Many automobile owners carry large public liability. In view of restrictions on pleasure driving and with speed reduced to 35 miles per hour, it would seem that these amounts could be modified. Is the amount of fire insurance on dwelling and contents in excess of actual value? If so, it should be reduced accordingly. Lower premiums mean increased income. One cannot expect to collect more than its actual value, after due write off for depreciation, etc.

Readjustment Ahead for Machinery & Machine Tools

(*Continued from page* 474)

are regarded as possessing a semi-investment status. Link Belt usually has done well. Caterpillar Tractor has a record for stable and gradually increasing earnings. Most of the earth-moving machine companies have been able to do well, even though profits have fluctuated fairly widely. On the other hand, there are scores of companies about which this cannot truthfully be said.

Actually when one talks of "machinery" companies, he discusses a heterogeneous group—a list of concerns engaged in vastly different lines of business. No two are alike. The shares of no two have the same investment or speculative characteristics. The same may be said, in a more limited way, of the machine tool companies. The more important things to consider are (1) the nature of the product, (2) the ability and resourcefulness of the management, (3) the company's past record, (4) the company's financial and capital status, and (5) the status of the machinery demand cycle.

Unfortunately, the censorship imposed by the Department of War Information, the War and Navy Departments, and by the companies themselves in some cases, prevents us at this time from knowing as much as we need to know (from an investment advisory point of view) about what many of the companies are making. To a greater extent than usually is the case, the investor in machine tool companies has to own a "pig in a poke." On the other hand, past records are available to those who will take the trouble to look them up; and managements have reputations which easily may be learned. This is the time of year when financial statements soon will be available. No one has to guess about the maturity of the machine tool industry's war effort; obviously it is arriving. Everyone has to guess about the future of machine tools in the post-war world; there is no certainty about it.

No comment on the machinery and machine tool industry from the point of view of investors would be complete without pointing out that the industry is paying very high excess profits tax rates. Its earnings after taxes have shown a very large increase since 1938, but the increase has not been as large as the increase in sales or as the increase in profits before taxes.

As earnings decline (and they surely will) the government for a time, at least in the case of most companies, will bear some 60% to 80% of the decline in net through collecting less in taxes. The excess profits tax system is a cushion against lower earnings on the way down just as it is a cushion against higher earnings on the way up. Moreover, the excess profits tax refund (10% of EPT paid) will be very important for many machinery and machine tool companies and will stand them in good stead in event bad times come. Most of these companies have made adequate preparation to take care of cash payment of taxes, and this has not prevented them from making large additions to their liquid strength. All of them in the post-war years should benefit from an immense increase in the number of skilled mechanics. Some of the "fat" now being acquired is going to stick; and we don't remember very many receiverships and bankruptcies in this field, even before the war "fat" was acquired.

In conclusion, the big thing to remember in studying the machine tool industry shares is that generalizations are impossible. Each issue must be judged on the basis of a separate set of facts and circumstances. The stock market acts as if it is fully aware of the uncertainties and problems outlined; machine tool and machinery shares probably are not absurdly valued at these prices, even though they hardly have alluring speculative appeal.

For Profit and Income

(*Continued from page* 487)

sion. Stocks like Underwood-Elliott-Fisher, Remington-Rand, L. C. Smith & Corona and Royal Typewriter should be good peace issues. Royal and L. C. Smith were making excellent progress in the years just before the war.

Low-Priced Dividend Payers

The "box" accompanying this issue's FOR PROFIT AND INCOME is made up of a tabulation of low-priced dividend payers. Many smaller investors, and not a few larger ones, like to buy low-priced shares—even though they sometimes represent a small fraction of ownership as compared with higher-priced ones. There are some fairly good quality stocks in the low-priced list: Best Foods yielding 6%; Burroughs Adding Machine, 5.8%; Consolidated Oil, 6.5%; Eagle-Picher Lead, 7.5%; Libby, McNeill & Libby, 7.8%; Remington-Rand, 8.1%; Socony-Vacuum Oil, 4.5%; and Texas Pacific Coal & Oil, 4.6%. There are also "growth" issues in the low-priced classification: Commercial Solvents, Canada Dry Ginger Ale, Radio Corporation, Rustless Iron, Penn Central Air Lines, and our old friend Fansteel Metallurgical. The number of lower-priced stocks which have been making new highs for 1942 and 1943 in recent weeks has been exceptionally large. Because of lack of space, this tabulation will extend over two issues of this publication.

Electronics

There is much thinking in what might be termed "more advanced quarters" about the manner in

which the war has stimulated the science of electronics. This field includes radio, television, industrial applications, radio and light waves, the "breaking down of the atom," and other things not yet talked about outside of research laboratories. Some of the things which are visualized are a new type of vastly improved sound radio set, commercial applications of television, new labor-saving machinery and a new field for chemistry. A few of the companies which are said to be "doing things" in electronics include Radio Corporation of America, Philco, Zenith, Farnsworth Radio & Television, National Cash Register, Minneapolis-Honeywell and General Electric. The new science easily could find market expression in Radio Corporation shares. It certainly is going to find market expression somewhere.

Appraising the Annual Reports and Balance Sheet

(*Continued from page* 461)

increased cost of the company's leaf tobacco inventory, for net before taxes was $43.7 million against $41.7 million in 1941. But Federal income and excess profits tax liability came to about $23.9 million against $18.5 million the year before, increase of about $5.4 million.

Modest increase in Reynolds cash item was meaningless, as current notes payable (to carry increased inventory) amounted to $20.75 millions or more than doubled in the year. Total current assets, of which more than 89 per cent was represented by inventory, amounted to $193.6 millions, against $174.6 million the year before.

The trend for Liggett & Myers was identical—higher sales and operating profit; much higher taxes, lower net, increased inventory, increased current notes payable. Net per share was $4.55 against $5.22 the year before. Tobacco companies figure inventory on a three-year average cost basis. Thus the raw material cost this year will be substantially higher than last year, so that whether or not taxes are further increased it will be hard to maintain 1942 earnings unless OPA permits a merited increase in cigarette selling prices. However, investors have the consolation of noting that the stock market is highly indifferent to temporary war adversities in the matter of earnings, just as it is indifferent to high war earnings if they are regarded as abnormal.

Before the war Outboard Marine & Manufacturing was cashing in on the fast growing popularity of "poor man's yachting." In the 1941 fiscal year the company earned $5.11 per share and in 1940 the stock sold at a record high of 32¾ on earnings of $3.82 a share. When war came to the U. S., the company was quickly tagged, by investment consensus, as a "conversion casualty." The stock went down to a low of 16. Today it is back to 30½, within 2¼ points of the highest price it ever commanded. If there is a moral to this tale it is. Avoid Snap Judgment. In the fourth quarter, for example, Outboard earned $1.74 a share on war-goods sales of $9.75 million, against 8 cents per share in the fourth quarter of 1941 when sales of regular products were at their seasonal low. As there is no seasonal factor in war production, the company appears to have an annual earning power of at least $6 a share; reconversion to peace will not be difficult; and post-war prospects for sales and earnings are excellent. Pre-war dividend rate of $2.25 has not been cut. This will be a stronger company at the end of the war than at the start. It might pay you to judge some of the much better known "market leader" stocks by the standards of value indicated in this instance of a small company.

Atlantic Refining's drop in net from $5.16 a share in 1941 to $2.33 last year illustrates the currently weak position of gasoline marketers; and this shrinkage, of course, does not reflect the full effect of reduced gasoline consumption in the East since the strict ban on pleasure driving only recently was imposed. Crude oil producers are in the best condition, with integrated companies next and marketers in the poorest spot.

We shall continue these appraisals in the next issue. It is, of course, not possible to comment on more than a minority of the reports and balance sheets issued. Rather, the purpose is to spotlight representative examples from different types of situations that provide helpful investment hints in common stock selection.

As I See It!

(*Continued from page 453*)

has broken up the nationalistic entities leaving only greatly handicapped minorities — weakened by purges, sterilization and other brutalities, so that they would be unable to resist the strongly established political underground forces of communism when it comes out into the open.

The only way in which the United Nations can take advantage of the setup in Hitler's new Europe in order to establish a liberal form of government there, would be to open an offensive that would land them in Berlin before Stalin gets there, or evolve a peace that would produce a United States of Europe under a liberal democracy. But this latter is impossible since we cannot deal with the gangsters who by their scheming have wrought such utter ruin.

Moreover such a plan is beset with grave danger since in decentralizing the populations of Europe, Hitler has established Germans everywhere, making it possible for domination by the stronger German groups in each country to secure eventual control regardless of the outcome of the war.

It is the political implication of this situation that is playing right into Stalin's hands and which is interfering greatly with our conduct of the war. The inherent danger is so great that it calls for the shelving of political bickering among the allies and complete unity of purpose.

Furthermore the implications of a Russian victory over Europe are far-reaching since it might affect the situation in the Pacific just as adversely. Stalin has thus far clung tenaciously to his treaty with Japan. Only the other day the Japanese hailed this treaty and reaffirmed their willingness to adhere to its terms.

Stalin does not trust the democracies nor does he understand them. He is of the East with an oriental turn of mind, a fact which he himself emphasized in taking leave of Matsuoko when he referred to their common orientalism as a sound basis for a meeting ground, then and in the future.

We have a great task before us —of winning this war and winning the peace too. We have the power and the brains to accomplish this. We must dominate the irreconcilable elements who are hampering us. The times call for patience and compromise.

Movies Face Another Prosperous Year

(*Continued from page 484*)

influence on production of new films as the year advances. Yet it has been stated that if no new pictures were made for the next ten months, the stocks of finished films available would be adequate for normal demand for that period. Moreover, it is asserted that the quality of the pictures now withheld for later release is equal to that of films produced in normal times, and in some instances even superior. Should this estimate prove to be correct, the beneficial effects upon revenues of the exhibitors can be readily apprehended.

Further Tobacco Sales Gains for 1943

(*Continued from page 480*)

perity in the South an important factor, continued progress in sales of snuff is anticipated for 1943. Last year's production aggregated 41.2 million pounds (believed to be the highest on record), and compared with 39.6 million pounds in 1941.

Higher tobacco costs will become an increasingly important factor. Inventories of leaf equal to about three years' needs are maintained by cigarette manufacturers, and costs of such material for a single year are charged at the average cost of the entire inventory. Some estimates place the estimated increase in these costs at more than 30% for 1943. The effects on profit margins can be readily perceived. Higher excise taxes effected in November, 1942, will have little effect on sales, but Federal and other levies will interpose serious barriers to net income gains. Other operating costs will also have their influences on profit margins. Notwithstanding these unpropitious factors, anticipated overall expansion in sales should preclude more than a moderate decline in 1943 net income for leading factors in the tobacco industry.

High Yield Bonds for Income and Appreciation

(*Continued from page 467*)

Ten-year average earnings on this bond is 9.28%. Latest cash items reported were approximately $35 million. If the road can spare $10 million of this cash, they could in effect retire approximately one-third of the $51.4 million Income bonds outstanding. These Income bonds still appear attractive at these levels, and could show sizable appreciation should any such buying program be inaugurated.

Reorganization rail securities, last group to be considered, seem to offer greatest advantages to the investor. Up to the present, several uncertainties besetting this group have been dispelled. One such uncertainty is the question of lien position. The Supreme Court, in the Los Angeles Lumber Case, re-affirmed the rule of absolute priority, thus nullifying what originally was considered the intent of Section 77, namely, the Composition Theory. Additionally, the uncertainty regarding the tax base of the newly reorganized roads was cleared up by altering the first tentative Treasury ruling (which in essence would have nullified the advantages of reorganization), and in its stead permitting the new company to use its old property valuation in calculating Excess Profits Taxes, Capital Gains or Losses and Depreciation.

Two other uncertainties, however, still remain. The Treasury

is claiming that bankrupt roads, not as yet reorganized, may not deduct interest from their income tax returns unless such interest is actually distributed to bondholders. The Circuit Court of Appeals will soon rule on the Treasury position. We do not, however, believe the Treasury position will be upheld, although should we be wrong in this contention, large interest payments will doubtless be disbursed and nullify, at least in part, plans for debt reduction on a large scale by the defaulted roads.

Lastly, and most important, the Supreme Court will, in the relatively near future (February 1st is the earliest possible date at this writing), rule on the status of Section 77. Reorganizations under this law have been delayed through endless litigation despite the obvious intent of the law when enacted, namely, of expediting reorganizations. The Courts have thus far ruled against the Composition Theory (that equity holders have participation rights) and have, as previously stated, established the rule of absolute priority. On the basis of precedent—upholding other major Administrative bodies, the FPC, F.C.C. and WLB—and on the basis of our interpretation of the opinions of counsel who in our judgment should be well qualified, we anticipate a favorable decision, i.e., a ruling upholding the I.C.C. in its interpretation of Section 77, and thus approving all of the I.C.C. reorganization plans.

Pending clarification of these latter two important issues, the defaulted issues are benefiting greatly from rising cash balances, permitting either large interest payments on arrears, or calls for tenders—as in the Seaboard case. The market for defaulted bonds has been greatly helped by a Treasury ruling to the effect that interest payments in most instances are a return of principal and not current income. Under the 1942 tax bill, capital gains—when securities are held over six months—are taxed at only 25%—a markedly lower rate than that of the average investor in the light of current high personal tax rates.

At the present time there exists a large spread as between the old bonds and the "new package" of securities to be obtained under the plan. Such spread ranges from 20% in the case of Northwestern to 35% for St. Paul and 45% for Missouri Pacific. Should the Supreme Court uphold the I.C.C.—that is, hand down favorable decisions — the above spread should close to around 6%, and then grow progressively smaller as the date for issuance for new securities nears. (Precedent is furnished by the market action of Erie securities following favorable Court decision in that reorganization in 1941.)

The St. Paul, Western Pacific, and Northwestern cases are now before the Court awaiting a decision; and since these three carriers are likely to emerge first from reorganization—and benefit from the technical factor of closing the existing spread—investors should concentrate purchases of defaulted bonds in securities of the above three roads.

In the case of Chicago & North Western, were adjustments made, retiring some $30 million of senior debt with surplus cash resources, new fixed charges would be less than $3 million annually and therefore covered—assuming our 1942 estimate of earnings correct—9.01 times. Income bonds would then be covered 4.45 times, and earnings of $14.80 and $9.25 shown on the Preferred and Common respectively. These estimates, we are informed, are before depreciation charges of some $3,500,000, which charges may be substituted in place of the A & B Fund, and accordingly benefit of the company from a tax angle. With such adjustments made, full coverage of Income bonds would then be shown in a depression year (as estimated in Column A) and a slight balance left over for the Preferred.

Under the new plan, holders of the old bonds suffer a sharp contraction of income. For instance the holders of the old General 5s will receive but $30.14 on the new First and Income bonds to be received—and must receive full $5 dividend on the Preferred to equal previous $50.00 payment. The holder of the refunding bonds will receive but $16.64 in interest and even with a $5 dividend payment on the Preferred would still be approximately $18 short of equal-

ling his former $50 annual return. A dividend of $4 a share on the common would be needed to assure a full $50 distribution.

A similar tabulation could be made for the St. Paul. Were no adjustments made for elimination of senior debt due to large cash resources, fixed charges in a depression year would be covered approximately three times; coverage on Income A 4½s bonds 2.05 times; but only slight coverage of Income B 4½s—0.22 times. In a year such as 1942, with earnings estimated at $35 million, fixed charge coverage would then be 8.24 times, Income A 4½s, covered 9.83 times; Income B 4½s, 9.96 times; and $18.06 and $6.80 shown on Preferred and Common respectively. Even greater coverage would be shown were adjustments made for retirement of some senior debt with surplus cash, thus reducing interest charges to $3.5 million as against $4,245 million as set up in original plan.

Lower Earnings For Most Food Companies

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another three years with a one-third increase in the basic rate of conditional payments to domestic sugar producers). Some form of wage control is also seen necessary by Mr. Wickard.

Sugar producers in Louisiana are doing very well, the 1942 crop being some 35% over 1941 with a large sucrose yield, to gross about 50% more than the previous year. 1943 acreage is being enlarged to increase the crop about 3%. The labor problem seems less severe than with the western beet sugar growers.

There has been heavy buying of sugar for lease-lend recently and it is thought that exports may run well over last year's 300,000 tons; refiners are said to be in favorable position to meet these demands. Domestic sugar rationing seems to be working comfortably now. On the whole the sugar producers (excepting beet sugar) are doing quite well.

The corn refiners—best known representatives are Corn Products and Penick & Ford—are working at absolutely peak capacity, setting new records for the amount of corn ground. More would be produced if additional equipment could be obtained. While some consumers such as the paper industry may reduce requirements in 1943, other customers are waiting to take whatever is thus released. The army or Lend-Lease wants all the starch and syrups available, and of course the demand for corn sugar is large. The industry in the first seven months last year handled more corn than in the entire years 1939 and 1940. Corn refiners serve a number of industries, since the starch is used in explosives, paper, textile, soaps and drugs as well as in brewing, baking and confectionery. By-products also have a wide range of uses. One reason for the huge demands on the industry is the fact that American-owned plants abroad, which formerly supplied the biggest part of the foreign markets, have largely stopped operating and U. S. mills have had to take up the slack. Despite these conditions the two leading companies are expected to show somewhat lower earnings in 1942, presumably due to the inroads of taxes.

Great things are being accomplished in dehydration, which may have repercussions on the food industry after the war. With potatoes over 80% of the shipping space can be saved. The Government is also experimenting with solid "bricks" of food stamped out under heavy pressure; one of these will furnish mashed potatoes for a large number of men. Dehydration failed in the first World War, giving the industry a setback for years, but now it is the most rapidly growing food processing industry in the Gulf Southwest, with 50 plants operating in Texas and Louisiana to remove water from milk, eggs, fruits and vegetables—even alfalfa.

While the various food industries may reflect greater irregularities in the coming year than in 1942, due to Federal demands and controls. The group as a whole seems likely to remain popular with investors as one of the "safe" post-war industries.

The Outlook for Utilities

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remain ample unless there is a marked change in weather conditions. Wages will be higher of course, and so will miscellaneous costs, but some of the utilities can automatically pass along some higher costs (particularly fuel) to consumers by charging slightly higher rates (as provided in present schedules). However, any general demand for increased rates on a broad scale would seem doomed to failure; while an increase has been allowed in Washington—of all places!—the OPA and Mr. Byrnes seem likely to oppose vigorously any widespread increases as "inflationary."

The federal taxes, while a bane to the utilities, have a silver lining in that the Federal Government absorbs 40-50% of any decrease in net earnings due to rising costs, decreased sales, etc. For this reason, utilities are unlikely to be severely hurt (as they were in the previous war) by any sharp rise in prices and wages. In 1917-19 the cost of coal skyrocketed; this time the OPA is holding prices down (though fuel oil is up rather sharply due to higher transport costs). The price of copper, an important raw material for utilities, is under particularly stringent control by Washington.

Thus operating company stocks, currently selling at about 10-15 times earnings, still seem moderately attractive on a semi-investment basis considering the wide disparity between the yields on high grade utility bonds and on the common stocks. However in view of their advance since last summer, the "cream is off" so far as appreciation is concerned.

As regards the holding company stocks, it is difficult to generalize. Most of these stocks, with their high leverage feature, fluctuate widely both as group and individually. As a group they enjoy wide swings when new tax legislation is proposed or enacted; individually they respond to SEC orders, new estimates of liquidating values prepared by brokerage houses and financial services, or

other special developments. Ordinarily, these stocks sell at a considerable discount from estimated liquidating values, if the dissolution process seems likely to be long and complicated; but the moment the speculative fraternity sees the possibility of a quick dissolution they are willing to bid for the bonds, preferred or common stocks of the utility involved. This was illustrated by the sharp advance in United Gas Improvement, United Corp. preferred, and Niagara Hudson securities when the news of the voluntary dissolution plans "broke" recently. These and similar holding company securities will doubtless continue to furnish speculative media for those interested in this type of security—including some shrewd and wealthy investors.

In former years the holding company securities were drastically depressed by SEC actions but from now on SEC activities in enforcing the death sentences seem likely in most cases to prove bullish rather than bearish. In other words, since it appears likely that the Supreme Court will hold the Utility Act constitutional (the recent action by the Court of Appeals upheld the SEC's "death sentence" against North American Company), both the commission and Wall Street seem to have for once somewhat similar objectives. The quicker the holding companies can be dissolved, the better this will now please most security holders.

However, a word of caution is necessary — the *very* low priced issues may not receive any consideration whatever from the SEC, since the commission follows the lead of the Supreme Court in giving as much as possible to senior security holders, at the expense of junior. The forthcoming United Light & Power decision (in which it is proposed to give about 8% of the assets to the common stock) will prove illuminating as to the commission's policy in this respect. In any event, holders of low-priced holding company shares, if they wish to play safe, should transfer at least part of their investment into the senior securities of the same companies, as a hedge against loss of the entire amount.

The Permanent War Gains *Versus* the Costs of the War

(*Continued from page* 458)

predictions for the future include: —glass that will float; wood that can not burn; shoes that have no leather; furniture that contains no wood or metal; plastic automobile bodies; synthesized gasolines that will give 30 to 50 miles to the gallon in motoring, with a large reduction in size and weight of engines; one-coat, odorless paints; edible butter wrung from petroleum, as well as new dyes, drugs, detergents, cleansing compounds, explosives and fabrics from the same source through chemical magic; safe and cheap family airplanes and helicopters; materials to which ice will not cling; telephone television; a machine that will convert voice sound vibrations directly into printed form; waterproof paper; cheaper methods of producing electricity; electrified farming, including the heating of the soil to force crops; a binder that will prevent soil erosion; practical air-conditioning for homes and offices and factories; window screens that contain no wire; machinery bearings that contain no metal, improved low-cost fertilizers; and various other marvels now in the "hush-hush" military stage.

What about the human side? Gains here may be most important of all to the future of America.

You have seen a lot of advertising about the "know-how" men of industry. My thought is that such application of this peculiarly expressive term is too narrow. I say we have entered an age in which *our "know-how" of meeting all the big national problems of social and economic relationships will be radically enlarged.* Our vision has been broadened, our confidence in the unlimited future of America restored.

We are moving toward a more intelligent cooperation between government and industry, and between management and labor; toward a higher standard of living; toward a floor of minimum economic security for all that will abolish extreme poverty, dignify the poorest of us and yet leave ample opportunity of self-betterment to the able and the energetic.

A rapidly increasing number of business men have stopped asking that they just be let alone to run their enterprises for profit as they please. More and more they are adjusting their minds and their sights not to *the* New Deal but to *a* new deal that will work for the material and spiritual betterment of America. The much publicized Henry Kaiser is not alone in speaking for that growing wing of business which is supremely confident and unafraid, progressive and forward-looking.

Consider the following brief digest of a certain public speech recently made:—

"Recognition must be given to the fact that human rights must be respected, that individuals must be freed from fear and want, that people must be educated and encouraged to live happy, useful lives . . . . We will have to plan on doing $135,000,000,000 of business annually in this country to keep our workers employed and our huge industrial development in full operation. . . . After this war, we shall have the broadest and deepest base for an economy of abundance that we have ever had in the history of our country. . . . A higher standard of living and higher social and economic standards will be attained. . . . We must plan to shape our national economic life into a well-balanced mosaic of science, industry, labor, agriculture and government. . . . We must individually develop vision, imagination and ingenuity for the amazing new world of the postwar period."

This sounds similar to much that has been said by some New Dealers and by "academic theorists and reformers"—but the speaker was Frederick W. Nichol, vice-president and general manager of the International Business Machines Corporation.

Yes, ladies and gentlemen, the war and its costs will not have been in vain. The more one looks at the asset side of the balance sheet, the more impressive it appears.

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